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NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

**SCENARIOS FOR RUSSIAN AGRICULTURAL
DEVELOPMENT TO 2021**

by

Joshua Hensley

December 2011

Thesis Advisor:
Second Reader:

Mikhail Tsypkin
Robert Looney

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SCENARIOS FOR RUSSIAN AGRICULTURAL DEVELOPMENT TO 2021

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Submitted in partial fulfillment of the
requirements for the degree of

**MASTER OF ARTS IN SECURITY STUDIES
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ABSTRACT

Russia's agricultural sector has experienced profound and fundamental change over the past two decades in response to the dissolution of institutions built under the Soviet regime. The relative chaos of the 1990s gave way to increased state intervention under Presidents Vladimir Putin and Dmitri Medvedev, contributing to a broad agricultural recovery. The present study examines the possible future course of agricultural development by presenting three scenarios depicting the challenges and opportunities the sector may face within alternative development contexts.

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LIST OF ACRONYMS AND ABBREVIATIONS

AKKOR	Association of Russian Private Farmers (Assotsiatsiya Krestyanskikh (fermerskikh) Khzyaistv i Selskokhzyaistvennikh Kooperativov Rossii)
CIFS	Copenhagen Institute for Futures Studies
EU	European Union
NEP	New Economic Policy
UGC	United Grain Company
WEF	World Economic Forum
WTO	World Trade Organization

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I. WHITHER RUSSIA?

There has been no shortage of attempts to address the question around which the present work centers: Where is Russia headed? The query is implicit in nearly every commentary on economic and political affairs both domestically and abroad. As has frequently been the case in Russia, there is a tension between the country's desire to be part of the European West, and a conservative political culture that remains deeply suspicious of foreign ideals and influences. This tension has so far prevented the country from fully embracing liberal democratic and economic principles. Nowhere is the dichotomy more apparent than in the countryside, where economic and political liberalization have collided with the innate conservatism of rural Russia. On the one hand, these ideas have held out the promise of reversing the chronic underproductivity of Soviet agriculture. Yet, they also have demanded a major reordering of social and economic relations. Both villagers, and rural elites, have consistently attempted to preserve elements of the status quo in the face of this reordering, fearing its implications. While it is impossible to definitively say how this contest will ultimately be decided, it is possible to explore possible alternatives and infer resulting impacts. This work will present arguments regarding the prospects for Russian agriculture over the next decade under three divergent scenarios, each depicting alternative futures the country may experience.

A. DEVELOPING SCENARIOS FOR RUSSIA'S FUTURE

Several groups have developed scenarios laying out possible political and economic paths Russia may elect to pursue in the coming years.¹ The aim of futures research is not to prophesy what will come to pass, but rather to develop a framework for

¹ Kaare Stamer Andreasen and Jakob Kelstrup, *Russian Prospects: Political and Economic Scenarios* (Copenhagen: Copenhagen Institute for Future Studies,[2005]); Osmo Kuusi et al., *Russia 2017: Three Scenarios* (Helsinki: The Parliament of Finland, The Committee for the Future,[2007]); World Economic Forum, *Russia and the World: Scenarios to 2025* (Geneva: World Economic Forum,[2006]); Vladimir Milov, "Russian Economy in Limbo," Carnegie Endowment for International Peace, <http://russia-2020.org/2010/07/13/russian-economy-in-limbo/> (accessed March 24, 2011).

evaluating the possibilities the future offers and exploring the implications of future choices. Although the assumptions underlying the scenarios developed by various groups differ in their specifics, the scenarios emerging from their analysis display remarkable continuity. Two critical uncertainties emerge across all the studies: To what degree will Russia diversify its economy away from reliance on raw materials, particularly oil? And to what degree will Russia liberalize or democratize its political system?² These two questions are actually closely related: because political and economic liberalization tend to be highly correlated the answer to the second question will directly influence how the former is addressed. A myriad of scenarios can be developed based on the assumptions made with respect to these questions, and the various studies do just that. Nevertheless, at the macro level, three possible outcomes consistently emerge. 1) Russia could pursue a path of political and economic liberalization. 2) Russia could attempt to maintain the status quo. 3) Russia could become more authoritarian with an economy increasingly reliant on state resources.

These images of the future are consistent with those of Dator's deductive forecasting model, which proposes that virtually all conceivable visions of the future can be categorized under one of four images: transformational, continuation, disciplined (traditional) society, and decline and collapse.³ Deductive forecasting essentially begins with the current state of affairs in a subject area and through reasoned judgment

² World Economic Forum, *Russia and the World: Scenarios to 2025*, 6.

³ James A. Dator, "The Futures of Culture or Cultures of the Future," in *Perspectives on Cross-Cultural Psychology*, eds. Anthony J. Marsella, Rolad G. Tharp and Thomas J. Caborowski (New York: Academic Press, 1979), 369-388.; Jim Dator, "The Future Lies Behind! Thirty Years of Teaching Future Studies," *The American Behavioral Scientist* 42, no. 3 (Nov/Dec, 1998), 298-319. Dator proposes that virtually all conceivable visions of the future can be categorized under one of four images: transformational, continuation, disciplined (traditional) society, and decline and collapse. The decline and collapse image is omitted from the present discussion. Although some thoughtful authors have speculated about scenarios under which Russia might experience a decline and collapse due to a major military confrontation or ethnically driven dissolution, it is often omitted from do futures research focused on Russia. While it may be argued that this is an unwarranted oversight, for the purposes of the present study the omission is justified on the basis that the consequences for agriculture under such a scenario would be highly dependent on the circumstances of the collapse and therefore virtually impossible to predict without making numerous (invariably tenuous) assumptions. One notable futures study of Russia that does develop a collapse scenario is Center for Global Affairs, *Russia 2020* (New York: New York University,[2010]).

extrapolates what the future would look like under each of the generic images. The result of these exercises is a set of alternative scenarios depicting what the future may look like.

A second approach used in futures studies is emerging-issue analysis. Emerging issue analysis begins with the premise that problems develop gradually over time, and are often ignored until they reach a point where they demand urgent attention. If one can identify emerging issues at a very early stage—before they become “trends” and before they become acute—decision makers may be able to shape the problems while they are still malleable, making them easier to solve. In terms of developing scenarios, emerging-issue analysis is a useful tool for generating realistic assumptions regarding the trends and problems most likely to shape the future. In practice, scenario developers use a combination of these approaches.

Before introducing the scenarios to be utilized in the present study, a couple of observations regarding the nature and limitations of the futures forecasting are in order. The first is that because it relies heavily on reasoned judgment in forming conclusions, futures studies tends toward the qualitative. Economic modeling, and other quantitative models are certainly utilized in developing the scenarios, however the emphasis is on developing a *qualitative description* of what the future may look like. Scenarios are commonly presented as vignettes depicting the scenario being described as it might appear from the perspective of an individual experiencing it. This facilitates an examination of trends likely to shape that future and the impact they may have. Even though the scenarios inevitably err in their particulars, they are valuable as tools for envisioning how issues might develop over time. The simultaneous development of several alternate scenarios facilitates the examination of a wider range of trends and possibilities.

Rather than developing original scenarios, the present work adopts three scenarios amalgamated from existing sources. Described in detail below, these three scenarios represent the three possible futures that commonly emerge from studies focused on Russian development.

B. SCENARIO 1: ECONOMIC AND POLITICAL LIBERALIZATION

This scenario assumes that Russia will, over the course of the next decade, democratize its political system and implement liberal economic reforms leading to its emergence as an influential global player. Political and economic reform are implicitly linked to one another under the assumption that, in the current Russian system, neither is likely to occur in the absence of the other. The World Economic Forum (WEF), in developing its version of this scenario, assumes that the failure of the government to deliver essential services to the population may drive mass political mobilization demanding greater accountability. Over time, this could lead to a “rebirth” of Russian society characterized by a free press, a business climate friendly to private enterprise, and a renewed governmental focus on the provision of public goods such as education, healthcare, and essential infrastructure.⁴ The Copenhagen Institute for Futures Studies (CIFS) assumes that a key element of this scenario may be a virtuous circle wherein liberalizing reforms encourage the expansion of small- and medium-sized enterprises, driving an increase in median income, diversification of the economy, and the formation of a vibrant consumer class. This consumer class latter becomes an important engine of economic growth in its own right, lending popular support to the liberalizing reforms.⁵ A scenario developed in a report for the Finnish parliament joins the WEF in suggesting that under such conditions Russia would actively seek closer political and economic ties with the European Union (EU) and membership in the World Trade Organization (WTO).⁶

The liberalization scenario supposes political institutions and norms commonly championed by the West are adopted in Russia. These include a free, fair, and open electoral process wherein vibrant political parties vie for power in a transparent manner. Russia would continue to have a presidential system; however the executive branch would be more accountable and responsive to the electorate. Democratization would

⁴ World Economic Forum, *Russia and the World: Scenarios to 2025*, 47–59.

⁵ Andreasen and Kelstrup, *Russian Prospects: Political and Economic Scenarios*, 18.

⁶ Kuusi et al., *Russia 2017: Three Scenarios*, 10.

help create a participatory political culture, wherein citizens actively participate in civic organizations at the grassroots level.⁷ Economic liberalization would involve adoption of reforms supportive of private enterprise. Chief among these would presumably be judicial and legal reforms necessary to institutionalize the rule of law. This would create a more stable business environment by providing a reliable means of enforcing contracts and eliminating some of the more arbitrary aspects of governmental regulation. Simultaneously, the scenario assumes that anti-corruption initiatives will meet with some degree of success. At the highest levels of government the currently cozy relationship between political leaders and big business would become more transparent, and rules addressing conflicts of interest would be adopted and enforced.⁸ At the local level petty corruption might persist, but would not present a significant threat to most economic interactions.

Most groups do not explicitly assess the likelihood of the various scenarios they develop. However, in order for a scenario to be most useful as a means of evaluating probable impacts and developing potential strategies for mitigation, such an assessment is essential. In an essay prepared for the Carnegie Endowment for International Peace, Vladimir Milov concludes that the liberalization scenario has a low probability of being realized because there are few credible motivators to drive genuine change. Indeed, Russia's response to the economic downturn has not been suggestive of any deep reevaluation of the general political and economic strategies pursued during the Putin-Medvedev Era. Nevertheless, President Dmitri Medvedev, the junior partner in the ruling tandem, has made public statements sympathetic to some liberalizing reforms. This inspires hope that the country may move toward liberalization if he retains meaningful influence after Vladimir Putin's reassumption of the Presidency in 2012. Overall, the likelihood of realizing the liberalization scenario is assessed to be very low (likelihood < 10 %.)

⁷ Andreasen and Kelstrup, *Russian Prospects: Political and Economic Scenarios*, 17.

⁸ World Economic Forum, *Russia and the World: Scenarios to 2025*, 52.

C. SCENARIO 2: BUSINESS AS USUAL

Under this scenario, the status quo predominates. The primary assumption is that the political and economic order, championed by Vladimir Putin as the nation regained its footing during the 2000s, remains largely intact throughout the coming decade. The ruling elite continue to subordinate economic interests to those of the state while eschewing genuine liberal reforms. Regime legitimacy is based on the provision of a minimum standard of living. Populist measures designed to garner the goodwill of voters are a drain on government resources, particularly in the lead up to major elections. The elections themselves are neither fair nor open due to government prohibitions against rival political parties and widespread allegations of fraud. The national economy and government revenue are highly dependent on the energy sector. Although other sectors of the economy continue to muddle along, a poor business climate hampers foreign investment essential for growth. This weakness also impedes efforts to bring new oil and gas production on line. As a result, energy exports stagnate or decline modestly.

Most groups seem to assume that the status quo will not persist in the long term. The WEF version of this scenario sees Russia gradually embracing limited economic reforms in order to avoid stagnation, but outside the energy sector it remains uncompetitive.⁹ The CIFS report develops two separate status quo scenarios. One similar to the WEF assumes that Russia is willing to allow the energy sector the latitude needed to remain competitive internationally. A second, less benign version assumes that the government will exercise a high degree of control over energy production, hampering efficiency and preventing the country from benefitting from globalization in a meaningful way.¹⁰

The deep recession witnessed in Russia in the face of weak energy demand during the 2008 economic downturn highlights its dependence on energy prices. If oil prices remain elevated over the next decade—perhaps \$100 per barrel or higher—it would be easier for the regime to maintain the status quo, even if overall production does not

⁹ Ibid.

¹⁰ Andreassen and Kelstrup, *Russian Prospects: Political and Economic Scenarios*, 23.

increase. If, on the other hand, prices are lower the status quo becomes less tenable. Putin, who has voiced only tepid support for the modernization initiatives floated by Medvedev, may embody the status quo scenario. He appears content with the current system, championing it as the best guarantor of national ambitions. If world oil prices remain elevated by historical standards, that is above \$100 per barrel, Russia will have the resources to maintain the status quo and the scenario is very likely to occur (likelihood > 70%.) If prices decline, or if Russian oil exports drop precipitously, resources will be insufficient and the status quo becomes less tenable (likelihood < 30%.)

D. SCENARIO 3: THE OIL CURSE

The oil curse—sometimes called the resource curse or Dutch disease—is based on the observation that natural resource windfalls usually fail to deliver sustainable economic growth; in fact they often have a deleterious impact on a country's overall prospects. Five interrelated elements are commonly associated with the oil curse. First, the influx of export earnings from the sale of natural resources often raises the value of the country's currency, thereby harming the competitiveness of non-resource sectors of the economy. In extreme cases, entire industries have been wiped out by the changing terms of trade associated with a strong currency. Second, resource extraction often lends itself to a monopolistic or oligopolistic structure. Lack of competition creates few incentives to increase efficiency or follow a prudent capital investment strategy. As a result, the extraction industries themselves tend to be underproductive in their use of capital. Third, the concentration of economic power engendered by these first two factors can undermine political institutions, which are liable to be co-opted by rent-seeking elites. This fosters a tendency toward autocratic rule. Fourth, the abundance of revenue flowing into government coffers from resource extraction activities relieves the state from the necessity of taxing the populace, making it less accountable to citizens. Consequently, genuine problems may be ignored so long as they do not directly threaten the status quo. Finally, governments may implicitly assume that the flow of easy money will continue indefinitely and neglect investments in future growth. Not only does this hamper development, it also makes the economy extremely vulnerable to a sudden

downturn in commodity prices.¹¹ While these five phenomena are readily observable in numerous countries around the world, as a politico-economic theorem the oil curse is sometimes criticized as overly deterministic. A few countries have managed to enjoy natural resource windfalls while maintaining a balanced economy or successfully fostering diversified growth, Norway and the United Arab Emirates being two frequently cited examples.

The first two scenarios (liberalization and status quo) assume that Russia will avoid the worst aspects of the oil curse. In contrast, this scenario assumes that the country will become entrapped in all the ills described above. The economy is increasingly dominated by hydrocarbon exports to the detriment of the industrial and service sectors. The manufacturers are unable to produce goods that are competitive in global markets. Protectionist policies attempt to insulate domestic producers from competition, and, as a result, globalization fails to take hold in Russia.¹² Foreign investment and ownership of Russian assets is limited due to poor rule of law and limited protection of private property. The government increasingly becomes the primary source for investment capital, which is often wastefully employed, squandered, or embezzled. Natural resource revenues relieve pressure on the government to encourage economic diversification. Recognizing the centrality of energy resources to the economy and to their own hold on power, the regime tightens its control over natural resources.

Under this scenario, energy interests dominate the political agenda. Economic elites vie for the favor of the political leaders with power over government policy. For energy industry players, the ability to influence political decisionmaking is more important than business acumen. In response to popular dissatisfaction over bleak economic prospects, the regime cracks down heavily on dissent. Political leaders defend the abridgment of political and civil liberties as a necessary expedient to preserve order. Rhetoric plays to popular fears of a return to the economic chaos of the 1990s. The regime attempts to maintain legitimacy through appeals to “traditional values and

¹¹ Pratek Goorha, "The Political Economy of the Resource Curse in Russia," *Demokratizatsiya* 14 (October, 2006), 602.; World Economic Forum, *Russia and the World: Scenarios to 2025*, 30.

¹² Ibid.

national security.”¹³ Governmental control over most forms of media hampers the dissemination of opposition viewpoints. Opponents of the regime are subjected to official harassment and often forced into exile.

In assessing the likelihood of this scenario, the central question is, “can Russia avoid the oil curse?” Russia has several advantages working in its favor. Unlike many other major oil exporters, its economy is not monolithic. Russia’s manufacturing, agriculture, and service sectors are all sizable in gross terms. The regime has made a considerable effort to maintain a diverse economy, although results have been mixed.¹⁴ Russia also has a highly literate and relatively well-educated workforce. These factors should help Russia avoid the worst aspects of the oil curse so long as the country’s political leadership demonstrates a minimal level of competence. Therefore, the likelihood that it will suffer from a serious case of the oil curse is assessed to be low (likelihood < 25%).

The oil curse scenario could facilitate a return to anti-progressive, authoritarian patterns of governance prominent in Russia’s past. Although oppressive autocracy is often associated with the oil curse, the link between the two is not absolute. The Russian population at present may demonstrate a high degree of political apathy and considerable tolerance for some of the authoritarian tendencies evident during the Putin-Medvedev era, but it is difficult to imagine that most people would passively countenance a broad return to the overtly repressive policies of the past. A strong move in that direction on the part of the regime might reawaken the political activism evidenced two decades ago as the Soviet Union disintegrated. It is unlikely that any regime would be willing to chance such a development. The likelihood that the oil curse would lead to a deeply repressive autocratic regime—such as those Russia endured during the Stalin or Brezhnev eras—is judged to be remote (likelihood <5%).

¹³ Andreassen and Kelstrup, *Russian Prospects: Political and Economic Scenarios*, 10.

¹⁴ Goorha, *The Political Economy of the Resource Curse in Russia*, 607–608.

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II. AGRICULTURE IN RUSSIA

Most published scenarios for Russia's future dedicate little effort to a review of the recent historical events or current trends informing the projections. Inasmuch as the focus of their work is on future developments and is intended to be general in nature, this omission is understandable. However, it puts the reader into the position of having to provide his or her own context in order to evaluate the veracity of the scenarios and their conclusions. Since the present work focuses specifically on the prospects of Russia's agricultural sector, it is appropriate to review the political, economic, and social contexts of the rural post-Soviet experience that inform the scenarios. This historical review will draw the reader's attention to those trends and ideas that have figured prominently over the past two decades and to those that are likely to play a meaningful role over the next decade.

A. THE SOVIET LEGACY

Historically speaking, agrarian reform has been a recurring theme in Russia for many generations. Attempts to modify relationships between peasants, land, and the state go back to at least to the sixteenth and seventeenth centuries when those working the land were gradually ensnared by a series of imperial decrees. The process of eliminating serfdom and managing the accompanying reordering of land ownership took place over more than fifty years, and in some respects was still ongoing when the tsarist regime collapsed. Communist leaders took up the banner of reform again when they imposed forced collectivization during the 1930s. The end of Soviet rule in 1991 and the attendant collapse of the collective farm system forced Russia to once again address this perennial issue.

The collectivized system created two intertwining problems, which all subsequent reform measures have been forced to contend with. The first is an impaired and underproductive labor force often resistant to new ideas. The second is a plethora of misaligned or inefficient incentives that prevent agricultural enterprises from realizing their productive potential. These twin legacies continue to exert profound influence

throughout the agricultural sector and will continue influence policy debates over the next decade. Together, they provide essential context for evaluating the current state and future prospects of Russian agriculture as a whole.

The roots of both issues can be traced back to the initial collectivization drive executed under Josef Stalin in the 1930s. The campaign was an essential element in the relentless industrialization drive that defined the era. At the time, party intellectuals successfully argued that the agricultural sector could finance industrial development if a means could be devised to unlock the capital tied up in the countryside. Collectivization served this end. Once imposed, it allowed the regime to impose rock bottom procurement prices for agricultural goods while maximizing the prices of consumer and industrial goods. The difference flowed into government coffers.¹⁵ Collectivization succeeded in accomplishing its immediate goal; industrialization proceeded at a breakneck pace and was a critical enabler of victory during World War II.

But this success was dearly purchased. First and foremost, industrialization imposed mass misery and suffering on the population, both urban and rural.¹⁶ The long-term costs included the two issues presently under consideration. Collectivization created a continuing, inexorable drain of human capital from rural areas and encouraged chronically poor resource allocation decisions by both the government and rural laborers. Conditions in the village and demand for labor in the rapidly expanding cities guaranteed that the out-migration would continue. Because young people left in greater numbers than the elderly, the vitality of many villages dropped, leaving a demoralized cadre disproportionately comprised of the elderly and those whose circumstances or lack of initiative prevented them from seeking new opportunities elsewhere. This led one rural official in 1937 to provide this blunt assessment: “The clever ones left the collective farms long ago; all that remain are the fools.”¹⁷ Although the 1930s saw the most dramatic exodus in terms of overall numbers, the talent drain from the village continued

¹⁵ Alec Nove, *An Economic History of the U.S.S.R* (London: Allen Lane, 1969), 210–211.

¹⁶ Nove provides telling statistical evidence highlighting industrialization’s impact. *Ibid.*, 207.

¹⁷ Robert W. Strayer, *Why did the Soviet Union Collapse? Understanding Historical Change* (New York: M. E. Sharp, 1998), 42.

throughout the Soviet period. Conditions in the city were consistently perceived to be much better than on the collective farm due to the higher wages, the possibilities for education, and the improved opportunities for upward mobility.¹⁸

Perhaps most noteworthy in light of Russia's post-Soviet troubles is the dependent, lethargic mentality collectivization engendered. Historian Sheila Fitzpatrick succinctly summarizes the rural dynamic:

In their approach to work on the *kolkhoz*, peasants displayed many of the characteristics of unfree labor. They worked poorly and unwillingly... were likely to start work only when the brigade leader told them to and continue only as long as he watched them. They pilfered anything they could from the *kolkhoz*, implicitly rejecting the idea that collective property was in any sense theirs rather than the state's. They avoided direct confrontation with their masters but used cunning, deception, and assumed stupidity to avoid obeying instructions. They often displayed what baffled officials described as a "dependent psychology" (*izhdivencheskie nastroyeniia*), working only when they were given explicit instructions and expecting the authorities to give them handouts when times were hard.¹⁹

As we will see, many of these attitudes continue to be prevalent in Russian villages today and continue to greatly complicate reform efforts.

Like virtually all aspects of the centrally planned economy, collectivized farming proved to be inefficient in a multitude of ways. Reform campaigns carried out after Stalin's death could do little to correct the underlying weaknesses, which were structural in nature. These weaknesses began with the system's inability to effectively incentivize production. The individual peasant had little interest in the success or failure of the *kolkhoz* because extra production benefited him little, if at all.²⁰ The subsistence conditions under which farm workers labored demonstrated that there was little hope of benefiting from a successful harvest since the party-state would presumably extort any excess. The peasantry's lack of internal motivation meant that continued productivity

¹⁸ Sheila Fitzpatrick, *Stalin's Peasants: Resistance and Survival in the Russian Village After Collectivization* (New York: Oxford University Press, 1994), 315.

¹⁹ *Ibid.*, 129.

²⁰ *Ibid.*, 129.

could only be maintained if authorities consistently imposed external motivation in the form of coercion and repression. This was done repeatedly under Stalin, the terror famine of 1932–33 being only the most prominent example. But coercion was costly both economically and politically. In any case, terror could only compel the individual peasant to do the bare minimum required to escape punishment. It never inspired him to produce a surplus. Given this dynamic, it is not surprising that in later years when the regime was less willing to impose harsh suffering on the rural population, Soviet agriculture was chronically incapable of feeding the nation.

Eventually, significant differences developed between the real costs of agricultural production and the value of goods produced. In the command system political will was a primary determinant in the resource allocation process. However, the centralized planning system could not properly count the true economic costs of favored projects. The case of Soviet beef production provides an instructive example. In the 1960s political leadership decided that the nation should strive to be the equal of the West in the production of meat and milk. For geographic reasons, maintaining cattle in Russia is much more expensive and capital intensive than in other parts of the world. The shorter summers mean that cattle spend a smaller portion of the year grazing and a larger portion consuming costly feed. Longer, colder winters also require large, heated sheds to shelter the animals.²¹ Thus, the marginal cost of raising beef production in the Soviet Union was higher than in the milder climates of the Western nations, which communist leaders were comparing their country with.²² Such realities did not deter Soviet leaders and planners. While the Soviet Union never achieved full parity with the United States in terms of beef production or consumption, it still became the world's second largest beef producer, accounting for 18% of the world total.²³ But the cost of achieving this was

²¹ Grigory Ioffe, "The Downsizing of Russian Agriculture," *Europe-Asia Studies* 57, no. 2 (March, 2005), 204.

²² The conclusions of this qualitative analysis are somewhat supported by quantitative analysis conducted by Liefert: William M. Liefert, "Comparative (Dis?) Advantage in Russian Agriculture," *American Journal of Agricultural Economics* 84, no. 3 (Aug, 2002), 765–766.

²³ Shayle Shagam and Linda Bailey, "World Meat Consumption and Trade Patterns," National Food Review, http://findarticles.com/p/articles/mi_m3284/is_n1_v12/ai_7689213/ (accessed February 1, 2011).

exorbitant. The increased demand for feed grain necessary to maintain the vast herds exceeded what the inefficient domestic farms could produce. As a result, the Soviet Union became the world's most prominent grain importer during the 1970s. Had it not been for the uneconomical drive for meat parity, Soviet grain supplies would likely have been sufficient to meet domestic needs without resorting to imports. Indeed, the cessation of grain imports since 1991 is largely attributable to a dramatic reduction in herd size to more rational levels.²⁴

Even though collectivization of agriculture was the key to funding industrialization, over time agriculture demanded an increasing share of the regime's investment resources until it eventually consumed one quarter of the budget. High investment levels did boost overall production, but not enough to prevent recurring crises in the sector. As a World Bank assessment concluded, "In Soviet times, production was high, mainly because it was heavily subsidized, not because it was efficient."²⁵ By the time Mikhail Gorbachev came to power, it was clear that the system was broken. The most frequently cited example of the failure is the production comparison between collectivized farms and individual peasants working private plots of land. The regime allowed peasants to keep small plots—about an acre or so in size—to grow their own crops or maintain an animal or two. Production from these plots that was not consumed directly by the peasants could be sold at farmer's markets. Given the low wages paid to *kolkhozniki*, these plots became essential to survival in rural areas.²⁶ Ronald Reagan famously highlighted this point in a 1982 speech observing; "private plots occupy a bare three percent of [the Soviet Union's] arable land but account for nearly one-quarter of

²⁴ William Liefert et al., "Former Soviet Union Region to Play Larger Role in Meeting World Wheat Needs," *Amber Waves* 8, no. 2 (June, 2010), 15.

²⁵ Csaba Csaki et al., *Food and Agricultural Policy in Russia: Progress to Date and the Road Forward* (Washington, DC: The World Bank, [2002]).

²⁶ Nove, *An Economic History of the U.S.S.R.*, 185, 367–368.

Soviet farm output and nearly one-third of meat products and vegetables.”²⁷

In summarizing the legacy bequeathed by Soviet agriculture to its Russian successor, three central points deserve emphasis. First, collectivization decimated the peasantry by eliminating its most productive members and forcing the survivors to scrape by at a subsistence level. The enormous human costs associated with these conditions resulted in a demoralized, underproductive rural populace. Second, centralized planning eliminated the need for agricultural concerns to produce on a profit-making basis. As a result, the agricultural sector was systematically incapable of responding to market dynamics once the Soviet system collapsed. Lastly, as inefficient as collectivized farms were at the end of the Soviet era, they were still indispensable to both large-scale cultivation and the productivity of individual plots.

B. THE ARC OF AGRARIAN REFORM

After the Soviet Union collapsed the entire economy was plunged into a radically different environment where the terms of production were determined by economic forces rather than political fiat. Throughout the post-Soviet period, reform efforts have focused heavily on rationalizing production incentives in order to overcome the inefficiencies of the collectivized system. Policy has largely ignored the human capital problem, perhaps because it is not widely understood outside domestic circles and is not easily addressed through governmental policy. Whatever the cause, it is clear that the failure of reformers to meaningfully address rural labor impairments has adversely impacted the reform process, preventing Russia from fully recognizing the benefits of

²⁷ Ronald Reagan, "Speech, June 8, 1982," PBS.org, <http://www.pbs.org/wgbh/amex/reagan/filmmore/reference/primary/evil.html> (accessed February 2, 2011). On the surface such statistics make the individual plots appear to be vastly more productive than collective farming. But as several analysts suggest that raw numbers overstate the actual productivity of the private plots. No matter how poorly it may have been run, the collective farm did have important resources at its disposal including seeds, fertilizer, equipment, fuel and so forth. Kolkhozniki were notorious for using these resources liberally to maintain their own plots. It is impossible to guess what the value of these stolen goods were, but from the peasant perspective they represented "free" inputs essential to the productivity of individual plots. If the cost of these inputs were included the productivity gap would be less dramatic. Nevertheless, the underlying point regarding the inefficiency of large collective farms remains valid. Likewise, Imprecise measurement of labor input and differences in the types of goods produced by collective farms and private plots can also skew productivity estimates in favor of private plots. See Elizabeth Clayton, "Productivity in Soviet Agriculture," *Slavic Review* 39, no. 3 (Sep., 1980), 451.

liberalization.

William Liefert and Johan Swinnen have identified four key elements that agricultural reforms sought to address in post-communist states: market liberalization, farm restructuring, reform of upstream and downstream operations and the creation of supporting market infrastructure.²⁸ It should be noted that these four areas are by no means mutually exclusive. In fact, they are closely related to one another. Failure or weakness in one usually bleeds over to the others. Similarly, success in one area frequently—but not always—contributes to progress in the others. A World Bank analysis suggests that the countries that have most effectively carried out reforms across these areas have had the best outcomes in terms of recovering agricultural productivity and prosperity.²⁹ This section will utilize the Liefert-Swinnen elements as a framework to review Russia's initiatives and performance, examining each in turn.

²⁸ William Liefert and Johan Swinnen, *Changes in Agricultural Markets in Transition Economies, Agricultural Economic Report no. 806* (Washington, DC: U.S. Department of Agriculture Economics Research Service,[2002]).

²⁹ Csaba Csaki, Holger Kray and Sergiy Zorya, *The Agrarian Economies of Central-Eastern Europe and the Commonwealth of Independent States: An Update on Status and Progress in 2005* (Washington, DC: The World Bank,[2006]).

Four Elements of Agricultural Reform in Transitional Economies	
Market Liberalization	Involves removing controls over resource allocation in order to allow market forces to dictate what is produced and in what manner. Includes removing subsidies, price controls and import/export restrictions.
Farm Restructuring	Changes how farms are owned, organized, and managed. Privatization and land reform figure heavily.
Reform of Upstream and Downstream Operations	Upstream operations involve supplying agricultural inputs to farmers; downstream operations involve storage, transportation, processing and distribution of goods.
Creation of Supporting Market Infrastructure	Closely related to the reform of Upstream and downstream operations, it entails the establishment of institutions such as agricultural banking, contract law and channels for the distribution of market information.
<small>Source: William Liefert and Johan Swinnen, Changes in Agricultural Markets in Transition Economies, Agricultural Economic Report no. 806 (Washington, DC: U.S. Department of Agriculture Economics Research Service, 2002).</small>	

Figure 1. Four Elements of Agricultural Reform in Transitional Economies (From Liefert, 2002)

1. Market Liberalization

As in other post-communist nations, the liberalization of agricultural markets in Russia has usually been directly related to the removal of government controls over the allocation of resources and outputs. Most commonly, these controls involve subsidies employed at several stages of production. As these subsidies are removed, domestic production is forced to compete on a more equal basis with imported goods. As this occurs, the production of goods that cannot be competitively produced without subsidies can be expected to decline. Simultaneously, newfound access to additional markets should encourage an expansion of activity in those areas where domestic farmers have a comparative advantage. In an ideal situation, these dynamics would force all actors in the sector to become more efficient in order to survive. In other words, Schumpeter's creative destruction is given free reign to eliminate the least efficient producers and reward competitive enterprises. Predictably, as these processes occur, they drive changes in the mix of goods produced. The decline of Russian beef production since the demise of the Soviet Union alluded to previously is an instructive example. Once government

support was reduced and producers had to bear the full costs of production, many enterprises were no longer competitive. Thus, the number of cattle in Russia declined 60% between 1990 and 2002 and is unlikely to ever rebound to Soviet-era levels.³⁰ While there is little doubt such creative destruction can be good for long-term prosperity, the short-term impacts and dislocations can be wrenching. Managing them is an important aspect of reform policy. Unfortunately, in the case of Russia, producers were slow to find comparative advantages and slow to adapt to market conditions. Significantly, political leaders were loathe to see existing farms fail entirely and frequently intervened to save them for reasons to be explored momentarily.

To a certain extent, market liberalization in Russia occurred as a matter of course when the government found itself financially incapable of maintaining Soviet era policies. Yet it also reflected a deliberate choice on the part of the Yeltsin government to reject incremental measures in favor of a drastic realignment toward free markets. This approach came to be known as “shock therapy” and was pursued in several Eastern European nations with varying degrees of success. As applied to the agricultural sector, Stephen Wegren has described the Russian variant of shock therapy as “state withdrawal,” reflecting the fact that during the 1990s the federal government’s role in the agricultural sector shrank dramatically.³¹ Reduction or elimination of many subsidies resulted in enormous food price inflation for consumers. At the same time, producers did not benefit from higher prices because they faced even greater increases in their own production costs due to the loss of subsidized inputs such as fuel, farm equipment, seed, and fertilizer. This phenomenon, in which production costs are higher than retail prices, is commonly referred to as the “price scissors.”³² The majority of Russian farms discovered that they had great difficulty competing with low cost imports from abroad.

³⁰ Ioffe, *The Downsizing of Russian Agriculture*, 181.

³¹ Stephen K. Wegren, "The State and Agrarian Reform in Post-Communist Russia," *The Journal of Peasant Studies* 34, no. 3&4 (July/October, 2007), 505.

³² Grigory Ioffe, Tatyana Nefedova and Ilya Zaslavsky, *The End of Peasantry? The Disintegration of Rural Russia* (Pittsburgh, PA: University of Pittsburgh Press, 2006), 38–39.

The net effect of market liberalization was a precipitous decline in production across all sectors of the agrarian economy, the magnitude of which far exceeded the predictions of Western analysts.³³

Following the 1998 financial collapse, a consensus developed among policymakers that the laissez faire approach was not working for Russia, and that increased state intervention in the economy was needed.³⁴ This paradigm shift would be felt across all four aspects of reform policy. Indeed, the entire agrarian reform narrative shifts dramatically after 1999, reflecting the belief that the state should have a more active presence in the agricultural sector. The result has been a mix of free market policy and government intervention to support producers of specific goods while expanding overall productivity. In principle, the approach is similar to that of other developed countries, including the United States. Policies became more assertive in protecting domestic producers from some of the market's more deleterious effects. This is a trend that has continued to the present. Specific measures employed include import quotas that limit competition from foreign goods, export bans intended to insulate consumers from rising world prices, and continuing subsidies in the form of loans, credits, restructuring or forgiveness of debt, and subsidized crop insurance. These measures have largely been anti-market in nature, although some market levers, such as open market purchases to support price floors, have been utilized.³⁵

The term "food security" has become a buzzword among politicians contending that Russia should maintain the ability to meet its own needs.³⁶ It is under this guise that many initiatives in support of agriculture are carried out. In 2010 President Dmitri Medvedev approved the Food Security Doctrine of the Russian Federation. This document sets ambitious self-sufficiency goals, some of which are unlikely to be realized in the absence of further state intervention. The goal of 85% self-sufficiency in meat and

³³ Liefert and Swinnen, *Changes in Agricultural Markets in Transition Economies*, *Agricultural Economic Report* no. 806, 16.

³⁴ Wegren, *The State and Agrarian Reform in Post-Communist Russia*, 513.

³⁵ Ioffe, *The Downsizing of Russian Agriculture*, 179.

³⁶ *Ibid.*, 184.

meat products is notable in this respect.³⁷

The formation of the United Grain Company (UGC) in 2009 as a state distribution and trading company has also been viewed with suspicion by some observers who fear it is an attempt to monopolize Russian grain exports, influence global prices, and assert primacy over the domestic market. A World Bank analysis suggests that based on the experience of state grain enterprises in other nations if Russia does harbor such ambitions they are unlikely to be realized.³⁸ Other views characterize the UGC as a step toward renationalization of the agro-industrial sector, reflecting trends toward greater state control seen in other sectors of the Russian economy. However, formation of the UGC can also be viewed in a less threatening light as a mechanism to promote orderly trading and improve distribution and export infrastructure. This is the vision promoted by the ministry of agriculture and President Medvedev.³⁹ The extent to which food security policies or the UGC will actually change Russia's market oriented policies is unclear. Do they represent an attempt by the government to subvert market activity, or are they intended to improve market efficiency? As is often the case, the motivations of Russian political leaders are opaque. The fact that the approved Food Security Doctrine did not contain the strong protectionist language of earlier drafts championed by the Agricultural Ministry indicates that pro-market approaches retain political support. Furthermore, the doctrine does not carry the force of law, nor does it define how objectives should be met, leaving policymakers with plenty of room to maneuver.⁴⁰

³⁷ Yelena Vassilieva and Mary Ellen Smith, *Food Security Doctrine Adopted*, GAIN Report Number: RS1008 (Washington, DC: USDA Foreign Agricultural Service,[2010]).
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Security%20Doctrine%20Adopted%20Moscow%20Russian%20Federation_2-11-2010.pdf.

³⁸ World Bank, *A State Trading Enterprise for Grains in Russia? Issues and Options*, Report no. 45925 - RU (Washington, DC: The World Bank,[2009]).

³⁹ Yelena Vassilieva, *Russia's Federal United Grain Company Created*, GAIN Report no. RS9022 (Washington, DC: USDA Foreign Agricultural Service,[2009]).
<http://www.fas.usda.gov/gainfiles/200903/146347621.pdf>.

⁴⁰ Yelena Vassilieva and Mary Ellen Smith, *Russian Federation Agricultural Situation*, GAIN Report Number: RS8089 (Washington, DC: USDA Foreign Agricultural Service,[2008]).
<http://www.fas.usda.gov/gainfiles/200811/146306496.pdf>.

Another issue with potential to affect the course of market liberalization is Russia's proposed accession into the World Trade Organization (WTO). Within the Russian government, the Ministry of Economic Development and Ministry of Industry have actively pressed for WTO membership for several years, while the Ministry of Agriculture has steadily opposed it. A major sticking point in negotiations has been Russia's agricultural supports. Recent reports assert that Russia is prepared to cut agricultural subsidies in half in order to gain membership.⁴¹ This suggests that if and when Russia does join the WTO, the impacts on agriculture will likely include increased competition from imports. This is a source of concern for farmers, who fear that, given Russia's cold climate, it will be impossible for them to produce as cheaply as competitors in warmer areas. As one farmer emotionally exclaimed to a reporter, "If we enter the WTO, my company will shut down! Because my potato will always cost twice as much as theirs because they harvest it three times a year, and I do only once!"⁴² A more sanguine view suggests that, over time, increased competition may actually act as a boon to production by forcing farmers to concentrate on products where they enjoy competitive advantages. At present, there are still far more questions than answers when it comes to Russia and the WTO.

2. Farm Restructuring

The failure to overhaul the inefficient collective farm system in the 1990s was a significant contributor to the painful dislocations caused by market liberalization. This failure was not explicitly due to any affection on the part of policymakers toward the old system, but rather a failure to build institutions to replace collective farms and a failure to create conditions favorable for alternative systems of farming to arise. Russia's early farm restructuring efforts revolved around privatization. While reformers themselves appear not to have had a well-formed vision of their desired end state, they generally

⁴¹ Marina Sysoyeva, "Russia to Cut Farming Subsidies in Half to Gain WTO Membership," *Bloomberg*, sec. 2011, January 18, 2011. <http://www.bloomberg.com/news/print/2011-01-18/russia-to-cut-farming-subsidies-in-half-to-gain-wto-membership.html>.

⁴² RT.com, "Looming WTO Accession Comes with Two Sides," TV-Novosti, <http://rt.com/business/news/russia-wto-accession-2011/print/> (accessed January 11, 2011).

attempted to privatize the land in such a way as to encourage individual or household farming. This approach made intuitive sense because on the surface the most efficient agricultural units in the Soviet system were the private plots. However, by the end of the 1990s, it was clear that most of these plots were oriented toward subsistence agriculture and did not contribute significantly to overall production. Collective farms, nominally independent of direct government control, but largely unreformed, continued to be the dominant producers in spite of their chronic weakness. Meaningful restructuring began to occur only after the 1998 financial crisis prompted changes to the government's philosophy toward intervention in the economy. Under Putin, the government has displayed a greater willingness to protect domestic producers than during the Yeltsin era, and rising oil prices have provided the financial resources needed to address problems. Perhaps more significantly, legislation clarifying land rights has encouraged private investment in agricultural companies. Over the last five years, this has facilitated more substantive restructuring of farm enterprises, engendering hope that, after years of incremental progress, Russia may finally be poised to set aside some of the legacies of collectivized farming.

Several factors combine to explain the slow pace of farm restructuring. First, meaningful farm restructuring required the development of private land rights, which had not existed under the communist regime. The 1992 land code took the first step forward by enshrining the principle of private land ownership. It distributed the lands belonging to collective farms to individuals employed by the farm. The farms themselves were reorganized as joint stock companies. Villagers were also given ownership of the private plots they had maintained under the old regime. It was hoped that these steps would encourage the rise of a class of private household farmers. However, while it was possible to convert the land shares into physical plots of land, few individuals elected to do so and the value of these shares has remained ambiguous. More broadly, a lack of enabling legislation (perhaps stemming from a lack of social consensus on the nature of property rights) prevented uniform implementation of the code across regions. This created widespread uncertainty regarding property rights, particularly relating to

agricultural land.⁴³ Predictably given the uncertainty, private investment was scarce and few new operators took possession of the lands worked by legacy farms. As a result, the status quo was maintained by default. The now-independent collective farms continued to hold most of the land, but struggled to work it effectively with the drastically reduced levels of state support.

This situation persisted for nearly a decade until further legislation enacted in 2001 began to improve matters by more clearly defining property rights and transfer rules. Subsequent laws defining the specific rules pertaining to agricultural land encouraged outside investors to explore opportunities in rural areas. Laws allowing for foreign ownership of agricultural land in the mid-2000s encouraged a dramatic expansion of foreign direct investment in the sector. By 2008, a “land rush” developed, with large-scale operators scrambling to secure access to the best fields. Land prices increased dramatically.⁴⁴ At present, the majority of landownership continues to be in the form of individual land shares leased by villagers back to the independent collective farm. But increasingly, private companies are purchasing these shares, undermining or eliminating independent collective farms in the process.⁴⁵ Still, these positive trends belie the fact that bureaucratic inefficiency, corruption, and high administrative fees continue to complicate and impede private land transfers. Indeed, these factors place individual villagers at a distinct disadvantage in comparison with well-financed corporate operators in terms of exercising property rights and benefitting from emerging private property markets.

A second frequently cited explanation for the slow pace of restructuring is a purported social preference for collective forms of agricultural work in rural Russia. Beginning with the Gorbachev reforms of the 1980s, agrarian reform in Russia has not arisen spontaneously as a result of popular pressure. Instead, leaders at the top have

⁴³ Louis Skyner, "Property as Rhetoric: Land Ownership and Private Law in Pre-Soviet and Post-Soviet Russia," *Europe-Asia Studies* 55, no. 6 (Sep., 2003), 899.

⁴⁴ Andrew E. Kramer, "Russia's Lazy Collective Farms are a Hot Capitalist Property," *The New York Times*, sec. A, August 31, 2008.

⁴⁵ Stephen K. Wegren, *Land Reform in Russia: Institutional Design and Behavioral Responses* (New Haven, CT: Yale University Press, 2009), 218.

imposed it on the populace. Therefore, reform has often failed to embody any form of social consensus as to what should be done. There is strong evidence to suggest that most villagers are not particularly inclined toward individual or family farming. Russia has a cultural tradition of communal land tenure. For centuries, agricultural land has been apportioned and administered through local institutions. This was a primary function of the *mir* in imperial times. The *kolkhoz* inherited this function with the added feature of jointly working the land. A survey of agricultural experts conducted in 1999 showed only 12% of respondents expressing hope that household farming would become dominant. The overwhelming majority favored some form of communal farming.⁴⁶ The attachment to collective farms is also conditioned by the fact that in many villages the farm is not only the primary employer; it is also the sole provider of public services such as health care and education. In fact, this social services role was expanded in the 1990s when the Yeltsin government made the beleaguered operators responsible for maintaining rural infrastructure as well.

Recently, Jessica Allina-Pisano has raised the controversial notion that rural farm restructuring has been intentionally stunted by rural elites who exploited the prevailing collective mentality in an explicit attempt to derail rural land reform efforts.⁴⁷ While there is anecdotal evidence to support the notion that this may have occurred in isolated instances, there is little to suggest that rural elites, such as they are, have the capacity or the desire to systematically undermine central government initiatives in favor of the status quo.⁴⁸ The actions of farm managers, local government officials, and regional administrators are more easily explained by the mundane exigencies of survival and preserving order, rather than any pervasive conspiracy.

The most significant economic factor in the failure of individual and household

⁴⁶ E. Serova, "Public Opinion on Russian Agrarian Reform," *Problems of Economic Transition* 44, no. 5 (September, 2001), 66–67.

⁴⁷ Jessica Allina-Pisano, *The Post-Soviet Potemkin Village: Politics and Property Rights in the Black Earth* (New York: Cambridge University Press, 2008).

⁴⁸ Martin Petrick and Michael R. Carter, "Critical Masses in the Decollectivisation of Post-Soviet Agriculture," *European Review of Agricultural Economics* 36, no. 2 (June, 2009), 235. doi:10.1093/erae/jbp022.

farms to thrive has been a lack of access to resources. While large in number, individual farms tend to be very small in size and are oriented toward subsistence agriculture. They lack access to equipment and sources of credit available to large producers, and are often heavily reliant on the local collective farms for access to inputs. One field study in the Belgorod oblast, found that nearly half of the fodder used by individual household farms originated with the local collective farm, and there was evidence that the other half may have come from the same source via informal channels. This led the researchers to conclude that, “No Russian peasant farmstead would survive a day without the collective farm.”⁴⁹

The nature of this codependent relationship between the peasantry and the independent collective farm helps to explain the latter’s survival even in cases of obvious insolvency.⁵⁰ When government support was withdrawn in the early 1990s, the old farm management cadre generally lacked the business acumen necessary to adapt to new realities. Even when they were able to successfully identify needed changes, they lacked the resources to implement them. The government’s de facto withdrawal from the agricultural sector and the absence of private sources of capital meant that upgrading equipment, shifting production patterns, or pursuing other opportunities for growth was simply out of the question. Thus, the independent collective farms were consigned to continue operations along the same lines as during the Soviet era. They became chronically unprofitable, failed to pay wages to their members, failed to repay government credits extended to replenish working capital, and were frequently forced to dump farm products at below-market prices in order to obtain needed cash.⁵¹

In a true market economy with hard budget constraints, such inefficient enterprises would fail via bankruptcy. However, in Russia, government leaders were unwilling to countenance such an outcome. There no viable, alternative producers ready

⁴⁹ A. G. Efendiev and I. A. Bolotina, "Sovermennoe Rossiiskoe Selo: Na Perelome Epoch i Reform. Opyt Institutsianogo Analiza," *Mir Rossii* 11, no. 4 (2002), 116.
www.ecsocman.edu.ru/data/850/971/1219/2002_n4_p83-125.pdf.

⁵⁰ Ioffe, Nefedova and Zaslavsky, *The End of Peasantry? The Disintegration of Rural Russia*, 37.

⁵¹ Ioffe, *The Downsizing of Russian Agriculture*, 183.

to step in to work the land. Moreover, as noted above, the independent collective farms continued to be essential to individual survival in many villages. In order to avert collapse, federal and regional governments chose to extend a variety of farm credits. When these loans went unpaid, they would be forgiven, effectively transforming the credits into a form of subsidy. As one group of researchers observes, this pattern harkens back to Soviet era practices, where farm managers enjoyed soft budgets and could rely on the government to cover losses.⁵²

Given these realities, it is not surprising that the farms' capacity to work the land slowly atrophied. In aggregate terms, the amount of land under cultivation decreased by at least 25 million hectares.⁵³ Some of this contraction can be viewed as a correction from the Soviet era when agricultural policies championing expansion in breadth encouraged production on marginal lands. Some of the contraction reflects Russia's declining rural demographics. Nevertheless, the fact that widespread abandonment occurred even in the most fertile regions indicates that the weakness of the collective farms was a major factor. The scope of the phenomenon has led geographer Grigory Ioffe to suggest that in the future Russian agricultural production will increasingly resemble an archipelago, with islands of productive lands in Central and Southern Russia surrounded by vast swaths of abandoned fields.⁵⁴ The federal government has signaled its concern over this prospect. In January 2011, President Dmitri Medvedev announced an initiative to seize agricultural lands if the owners failed to cultivate them for three consecutive years.⁵⁵ Whether such measures can reverse the trend remains an open question.

While much of the agricultural sector floundered in the 1990s, there was one segment that was somewhat healthier. As a group, food processors became profitable by

⁵² Ioffe, Nefedova and Zaslavsky, *The End of Peasantry? The Disintegration of Rural Russia*, 18.

⁵³ Stephen K. Wegren, "Land Reform in Russia: What Went Wrong?" *Post-Soviet Affairs* 24, no. 2 (2008), 129.

⁵⁴ Ioffe, *The Downsizing of Russian Agriculture*, 199.

⁵⁵ Marina Sysoyeva, "Medvedev Approves Withdrawal of Unused Russian Agricultural Land," *Bloomberg*, sec. 2011, January 12, 2011. <http://www.bloomberg.com/news/print/2011-01-12/medvedev-approves-withdrawal-of-unused-russian-agricultural-land.html>.

the mid-1990s. However, the weakness of the independent collective farms threatened these companies' access to the quality farm products essential to their operations. In an attempt to remedy this situation, food processors began to acquire ownership stakes in farm operations or even purchase farms outright. Such actions were encouraged by government officials eager to ensure the farms' survival.⁵⁶ This gave rise to vertically integrated agribusiness firms. These combined enterprises enjoyed the access to capital markets and financing needed to modernize farm operations.

Initially, the farms themselves were usually an unprofitable part of the combined business. Some observers noted a tendency for the new corporate owners or investors (sometimes referred to as agro-holding companies) to exploit the land for maximum short-term production with little concern for the long-term consequences. This led one Russian analyst to compare the corporate farm operators of the early 2000s with the operators of bonanza farms in North Dakota during the late nineteenth century.⁵⁷ Nevertheless, as conditions continued to improve and the government signaled increased support for the agricultural sector, corporate farming emerged as a productive and profitable farming arrangement, economically superior in most respects to the independent collective farms. Naturally, success encouraged additional investors to rush in. Many of them had few ties to the Russian countryside, which meant that they were not wedded to existing structures, institutions, and practices. Perhaps most significantly, these large corporate operators often brought political connections and were able to lobby the government on agricultural policies to a much greater extent than the enfeebled independent collective farms. Quantifying the scope of this expansion is challenging due to the paucity of statistics on the subject, but one analysis suggests that in 2009, corporate farms accounted for more than 12% of the land under cultivation. In the most productive farming regions the percentage is probably even higher.⁵⁸ This small, but rapidly expanding presence has also encouraged the independent collective farms to improve

⁵⁶ Ioffe, Nefedova and Zaslavsky, *The End of Peasantry? The Disintegration of Rural Russia*, 34.

⁵⁷ Dmitry Rylko, "Eto Bylo v Stepyakh Minnesoty... Vek Nazad," Institute of Agricultural Market Research, <http://www.ikar.ru/articles/22.html> (accessed January 26, 2011).

⁵⁸ Ibid.

their own operations in order to avoid being replaced, keying a recent agricultural resurgence. According to government figures, the overall value of the nation's production increased 49% between 2006 and 2009.⁵⁹ The importance of this production to international grain markets was illustrated in 2010 when a poor harvest in Russia was a major contributor to record high food prices. Overall, farming has become profitable, with over 70% of operators reporting profits in 2007 compared with just over 10% in 1998.⁶⁰ Corporate farming's share of land and production will likely to continue to grow as additional collective farms are displaced.

3. Reform of Upstream and Downstream Operations

The third element of agricultural reform Russia had to address is a group of factors collectively referred to as upstream and downstream operations. Upstream operations involve supplying farms with agricultural inputs. Downstream operations involve the elements needed to bring production to market, including storage, transportation, and distribution networks. When subsidies for upstream inputs such as fuel, fertilizer, equipment, and other working capital were taken away during the period of state withdrawal, farms were forced to procure these items at much higher market prices. This raised production costs dramatically. The inability to effectively cope with the new liberalized market dynamics inspired a vicious circle in which unprofitable farms were unable to repay loans and subsequently could not obtain additional credit to replenish their working capital for the next growing season. The farms found themselves unable to sow all their fields or maintain the size of their herds, further undermining hopes of profitability. As indicated in the previous section, when farms reached the brink of insolvency, the government (often at the regional level) would frequently intervene and avert collapse by providing credits for the purchase of inputs or forgiving debt.⁶¹

⁵⁹ Ministry of Agriculture of the Russian Federation, *Selskoe Khozyastvo Rossii* (Moscow: ,[2009]). <http://www.mcx.ru/navigation/docfeeder/show/164.htm>.

⁶⁰ Wegren, *Land Reform in Russia: Institutional Design and Behavioral Responses*, 308.

⁶¹ Ioffe, Nefedova and Zaslavsky, *The End of Peasantry? The Disintegration of Rural Russia*, 36.

But such intervention was uneven and, given the scope of the problem and the government's own budgetary woes, generally inadequate to the task.

Entrepreneurial traders recognized opportunity amid the chaos. Individuals in a position to lend money to the independent collective farms would agree to provide the farm with essential inputs at planting time in exchange for a share of the crop at predetermined prices. In advanced countries futures contracts traded on established markets perform this function. Unfortunately, this "market" for future production was primitive and inefficient. The farms, lacking alternative sources of credit, often had little leverage when negotiating terms. A lack of access to market information also put them at a disadvantage. As a result, the prices traders paid were often only slightly above actual production costs. When grain prices rose in 2001 and 2002, these traders were among those who profited most since they were able to sell the contracted grain on the open market at a tremendous mark up.⁶² Given the cultural distaste in Russia for middlemen and their perceived profiteering, it is not surprising that the traders were often viewed with resentment. However, the fact that these traders could make handsome profits was apparently not lost on investors, who were entering the sector in increasing numbers.

A key success of recent reform efforts has been to increase in the availability of seasonal credit essential to successful farming operations. The Ministry of Agriculture has assumed a leading role in facilitating this credit by either direct lending or through subsidized commercial loans. For the spring 2011 planting season, government loans are anticipated to represent approximately one-third of seasonal lending, with the balance coming from state owned commercial banks. The ministry also provides assistance in procuring inputs including fuels and fertilizer.⁶³ The heavy government role has made resources available for most farms, correcting one of the most serious problems of the 1990s. However, farm managers indicate that bureaucratic obstacles and the sometimes-arbitrary nature of Russian governance now represent an additional challenge. As one

⁶² Ioffe, *The Downsizing of Russian Agriculture*, 186–188.

⁶³ Yelena Vassilieva, *Agricultural Development Program in 2010 and Priorities for 2011*, GAIN Report no. 1106 (Washington, DC: USDA Foreign Agricultural Service,[2011]).
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Agriculture%20Development%20Program%20in%202010%20and%20Priorities%20for%202011_Moscow_Russian%20Federation_1-26-2011.pdf.

manager recently complained to a reporter, “I’m not a revolutionary, I’m a professional... we need clear rules of the game if we are to succeed.”⁶⁴ Another foreign farm investor points out that in Russia he must employ twenty accountants and lawyers to handle administrative issues, compared with only one bookkeeper on his farm in the United Kingdom.⁶⁵ Such anecdotes are once again suggestive of not only the need for further reform, but also the advantages large corporate operators who can afford to employ such a cadre of professionals enjoy over household farms and small producers. Although the agricultural ministry has signaled a desire to reduce its role in providing access to inputs, private lenders have so far been reticent to enter the realm of agricultural finance. Until this occurs it is unlikely that the government’s role will be reduced.

Turning to the downstream operations, Russia’s storage and distribution infrastructure is still in poor condition and in some ways has been touched the least by reform measures. To begin with, Russian farms generally lack sufficient on site storage capacity. This means they are obliged to send their crops to market as they are harvested, regardless of market conditions. One of the significant advantages agro-holding companies have over other producers is the financial wherewithal to invest in such facilities. This provides them the flexibility to hold on to goods in a weak market until prices improve. For example, in 2010 when the poor harvest and a government-imposed export ban caused uncertainty in the markets, Agro-Vista, a large operator in the Tambov region, was able to store and hold a portion of its fall grain harvest in the expectation that prices would be higher later in the year. The farm’s manager stated that even though the harvest was meager, he anticipated that the enterprise would still make a profit due to the higher prices he would eventually receive using this strategy.⁶⁶ The Ministry of Agriculture has taken steps to expand the availability of medium- and long-term loans to fund such capital improvements. However, persistently high debt levels due to years of unprofitability prevent many farms from taking advantage.

⁶⁴ Isabel Gorst, "Russia Put to the Test by Grain Shortage," *Financial Times*, sec. WORLD NEWS, October 5, 2010.

⁶⁵ Isabel Gorst, "Rich Soil has Capacity to Double Yields," *Financial Times*, sec. FT REPORT - INVESTING IN RUSSIA, October 1, 2010.

⁶⁶ Ibid.

The other formidable downstream challenge in Russia is the poor transportation and distribution network. Geographically, the country's vast size means crops often have to travel significant distances to market. This results in an additional cost burden, especially to producers located far from population centers and transportation nodes. This is one reason that the agricultural areas exhibiting the strongest recoveries are in the vicinity of Moscow (a population center and major consumer) and in the Southern Black Earth regions (near grain export facilities in the Black Sea.) The distance problem is only exacerbated by the poor condition of the transportation network. Roads are of poor quality and suffer from years of neglect. During good harvests the rail network strains to keep up with demand, a condition that may grow worse in coming years. Rail officials have stated that as much as 57% of their grain transport fleet will need to be replaced within the next five years. Likewise, the capacity of grain export facilities will need to expand by 50% over the next decade if Russia is to become the world's foremost exporter, as some analysts project.⁶⁷ There is hope that the recent profitability of agriculture will facilitate needed capital investments. Indeed, one of the advertized benefits stemming from the formation of the United Grain Company is increased government investment in grain elevators and export facilities.⁶⁸

4. Creation of Supporting Market Infrastructure

In order to function properly, a free market system requires both institutions supportive of private enterprise and a transparent, predictable governance environment. Several elements that contribute to this infrastructure including land reform, development

⁶⁷ Rossiyskaya Gazeta, "Agriculture: Russia to Become Global Leader in Grain Exports Business," The Telegraph (UK), <http://www.telegraph.co.uk/sponsored/russianow/business/7866654/Agriculture-Russia-to-become-global-leader-in-grain-exports-business.html> (accessed February 8, 2011).

⁶⁸ The case of Transneft, the government owned pipeline monopoly, is a possible analogue to the government's newfound control of grain handling infrastructure through the UGC. After struggling with similarly inadequate infrastructure when the oil boom of the early 2000s occurred, Transneft invested heavily in new facilities designed to improve export capacity. The new projects have eliminated the bottleneck problems experienced previously. But such success does not warrant the conclusion that government control over downstream operations is a panacea, or even a positive development. Transneft, after all, has a long record of discriminatory policies designed to further government interests over those of the private sector. See Adnan Vatansever, *Russia's Oil Exports: Economic Rationale Verses Strategic Gains* (Washington, DC: Carnegie Endowment for International Peace,[2010]).

of private property rights, and agricultural banking and finance have already been considered in connection with other reform areas. Additional elements include channels for the distribution of market information, a stable regulatory environment, and fostering a favorable business environment that includes mechanisms for enforcing contracts. As Liefert and Swinnen acknowledge, it can be difficult to separate the reform of upstream and downstream operations from reforms that support market infrastructure because the two are often interrelated.⁶⁹ In Russia this is certainly the case. Much of the supporting market infrastructure created over the past twenty years was developed in response to the difficulties farms experienced procuring inputs.

Like other free enterprise activities, a market oriented agricultural system functions best when supported by credible governing institutions. Unfortunately, over the last decade Russia has systematically failed to progress in this area and by some measures has actually gone backward. Accounts of corruption, bribery, and favoritism are widespread. Because Russia has failed to establish a credible regime to enforce contract law, businesses operating in Russia must be extremely wary in dealing with counterparties. Political connections and bribery allegedly play a far greater role in determining the outcome of disputes than the actual rights or wrongs of the specific case. Such uncertainties can prevent owners from making prudent long-term investments. The persistence of the infrastructure problems discussed above—especially the inadequacy of storage and distribution facilities—is also related to this hesitancy to invest for the long-term. While Russian leaders continue to promote their country as a favorable for investment, there remains a lingering fear that a weak tradition of personal property rights and the government’s propensity to assert its own interests over that of private owners make farming in Russia a risky venture.⁷⁰

⁶⁹ Liefert and Swinnen, *Changes in Agricultural Markets in Transition Economies*, Agricultural Economic Report no. 806, 2.

⁷⁰ Rossiyskaya Gazeta, *Agriculture: Russia to Become Global Leader in Grain Exports Business*.

C. THE RURAL LABOR FORCE

The reform policies discussed and critiqued above focus heavily on the systemic aspects of agricultural production. Clearly they were both essential and necessary to the transition from communism to a market oriented system. However, they have notably failed to address many of the social and human capital problems collectivization created. Most technical analyses of Russian agriculture ignore this issue entirely or provide only summary treatment. By contrast, in field studies the social problems and impairments of the rural labor force are usually a salient feature. Indeed, without referencing conditions in Russian villages today it is impossible to draw a complete picture of the Russian agricultural sector, nor to accurately assess its future prospects. This concluding section will discuss these societal factors and their impact on both reform policy and agriculture as a whole.

1. The Social Legacy of Collectivization Today

Clearly, collectivization was the pervasive backdrop against which agrarian reform took place and virtually all reform efforts were aimed at remedying the deficiencies it engendered. But as catastrophic as collectivization was economically its most damaging aspects were the human costs imposed on the rural populace. An accurate assessment of the continuing impact today requires some historical perspective. Within Russian society rural peasants have always been marginalized. Although they constituted the vast majority of the Russian population until the middle of the twentieth century, they have consistently been forcibly bound to the land in varying degrees of serfdom. In Imperial Russia, the small class of Westernized aristocrats and the intelligentsia often regarded peasants by as backward or even degenerate. Certainly, Vladimir Lenin and other prominent Bolsheviks, who were primarily from urban intellectual backgrounds, held such views.⁷¹ Western visitors to Russia often echoed similar sentiments, writing about the peasantry's backward nature and propensity toward drunkenness. An English engineer named John Perry, who spent 14 years in Russia

⁷¹ Frederic L. Pryor, *The Red and the Green: The Rise and Fall of Collectivized Agriculture in Marxist Regimes* (Princeton, N.J: Princeton University Press, 1992), 50–51.

during the reign of Peter the Great, concluded that social conditions made Russian peasants “the most dull and heavy people to attain to any art or science... apt to rebel and engage in the most barbarous cruelties, in hopes of being relieved from that slavery that is hereditary to them.”⁷² Another eighteenth century English traveler and writer named William Coxe was somewhat more complementary of the peasants’ mannerisms, yet he still described their circumstances as exceedingly oppressive and bleak.⁷³ John Lloyd Stephens, an American who penned a travelogue of his 1832 visit, judged that peasants labored under conditions worst than those common among slaves on plantations in the American South. He wrote, “Indeed, the marks of physical and personal degradation were so strong, that I was irresistibly compelled to abandon certain theories not uncommon among my countrymen at home, in regard to the intrinsic superiority of the white race above all others.”⁷⁴

While care must be taken to avoid over generalizing on the basis of such anecdotes, it is reasonable to conclude that the social and material condition of the Russian peasantry has historically been inferior to its Western counterparts. Bolshevik intellectuals hoped that collectivization would remedy the situation, but if anything the disparity only increased. The decades leading up to the cataclysmic events of the 1930s saw many real advances in the countryside, from emancipation in 1862 through the relative economic liberalization enjoyed under the New Economic Policy (NEP) of the 1920s. However, all of this progress was wiped out by collectivization. Sadly, descriptions of Russian village life by outside observers today often depict backward and degenerate behavior reminiscent of the accounts given by Perry, Coxe, Stephens, and others from the eighteenth and nineteenth centuries. For example, Grigory Ioffe and Tatyana Nefedova recount a 1995 visit to an independent collective farm in the Yaroslaval region where they observed that after workers received long delayed wages they immediately launched into a prolonged drinking binge lasting several days while the

⁷² George Vernadsky et al., eds., *Source Book for Russian History from Early Times to 1917*, Vol. 2 (New Haven, CT: Yale University Press, 1972), 319.

⁷³ *Ibid.*, 424–425.

⁷⁴ Quoted in J. N. Westwood, *Endurance and Endeavor: Russian History 1812–1986*, 3rd ed. (New York: Oxford University Press, 1987), 76.

farm's neglected cattle suffered for want of feed and milking. Emaciated cattle were slaughtered simply because their lethargic caretakers would not tend them.⁷⁵ Accounts in the popular press frequently relate similar tales of drunkenness, lawlessness, and social depravity.

A common thread in nearly all stories about the Russian village is alcoholism, which is the foremost impairment to the rural labor force. Alcoholism has long been known to be a national epidemic and routinely garners the attention of political leaders.⁷⁶ The scope of the problem, particularly in rural areas is difficult to comprehend without firsthand experience. As Ioffe has written, "the situation is apparently past the point when diagnoses like 'drinking,' 'binge drinking,' and perhaps even 'alcoholism' reflect the true meaning of the problem. What is going on today is more aptly described as 'pervasive human degradation,' 'profound degeneration of the gene pool,' and so on."⁷⁷ The effect of alcoholism on agricultural production is significant. To manage the problem, some farm managers have begun paying their workers with debit cards that cannot be used to purchase alcohol. Others have forced workers to get surgical implants that induce physical and psychological discomfort when alcohol is consumed. On independent collective farms, which rarely fire workers, drunkenness or working under the influence is often simply tolerated.⁷⁸ The rural labor force's proclivity for drunkenness is a common cause of complaint among newly arrived corporate operators.

Crime has also emerged as a prominent and troubling feature of rural life during the post-Soviet era. Recently, incidents of violent, organized crime in provincial areas have garnered significant media attention within Russia. In many regions, criminal elements appear to have co-opted local officials, who tolerate or even benefit from their nefarious activities. The brutal slaying of twelve individuals including four children at a

⁷⁵ Ioffe, Nefedova and Zaslavsky, *The End of Peasantry? The Disintegration of Rural Russia*, 92.

⁷⁶ For a recent evaluation see V. S. Taplina, "How Much does Russia Drink? Volume, Dynamics, and Differentiation of Alcohol Consumption," *Russian Social Science Review* 48, no. 2 (Mar/Apr, 2007), 79–94.

⁷⁷ Ioffe, *The Downsizing of Russian Agriculture*, 193.

⁷⁸ Ioffe, Nefedova and Zaslavsky, *The End of Peasantry? The Disintegration of Rural Russia*, 93–94.

holiday gathering in Kushchevskaya in 2010 focused a spotlight on this issue, with President Dmitri Medvedev becoming personally involved in the ensuing public debate.⁷⁹ In many ways, rural criminal activity is a symptom of the same weak governing institutions and poor rule of law that hamper agricultural reforms and economic progress generally in Russia.

The crime most commonly committed in the village is theft, which is so pervasive that it is often treated as a simple fact of life. Because peasants were paid so little by the collective farms there was a strong incentive to steal. The communist party discovered this almost immediately and attempted to combat it in 1932 with a draconian law proscribing the death penalty for the theft of state property.⁸⁰ Over time however, such penalties proved to be impossible to carry out. A recent study of rural attitudes indicates that a culture of theft exists in rural society. It found that the incidence of theft in the village does not correlate with individual economic hardship and is better explained with reference to socio-cultural norms.⁸¹ It is also noteworthy that respondents in the survey drew a sharp distinction between theft from the collective farm and theft from individuals, with the former being significantly less deplorable.⁸² Corporate farm enterprises must spend significant sums protecting their investment from depredation. One operator in the Tambov region reports hiring a team of forty security guards to protect its 30,000 hectares of land.⁸³ Such situations are typical, and yet the measures are often insufficient because the security guards themselves do not always refrain from helping themselves to the farm's goods. Other operators have turned to creative profit sharing or goods sharing arrangements in order to decrease incentives for theft.

⁷⁹ Michael Schwartz, "A Massacre shows Power of Gangs in Rural Russia," *New York Times*, sec. A, December 11, 2010. <http://www.nytimes.com/2010/12/12/world/europe/12russia.html?pagewanted=all>.

⁸⁰ Fitzpatrick, *Stalin's Peasants: Resistance and Survival in the Russian Village After Collectivization*, 73.

⁸¹ Efendiev and Bolotina, *Sovermennoe Rossiiskoe Selo: Na Perelome Epoch i Reform. Opyt Institutsianogo Analiza*, 108–109.

⁸² *Ibid.*, 104–106.

⁸³ Gorst, *Rich Soil has Capacity to Double Yields*.

All of these social problems exist against a backdrop of declining demographics and land abandonment. The declining proportion of arable land under cultivation is rightly attributed to a combination of the declining capacity of collective farms and a correction from the irrational expansion of farming onto marginal land during the Khrushchev and Brezhnev eras. But a comprehensive analysis of land abandonment published in 2004 found that the best *predictor* of which areas would actually suffer most from land abandonment was the degree of population decline experienced over time. Once population falls by a certain amount in a given region, land abandonment almost invariably follows.⁸⁴ Demographically, rural Russia has been shrinking since the industrialization drive of the 1930s. Rural birth rates have been below replacement level since 1992. The combination of these factors has led to the specter of some settlements disappearing entirely. Depopulation causes significant changes for individuals and families who are uprooted from current ways of life and forced to begin anew outside their native villages. Those affected overwhelmingly express a desire to leave the rural lifestyle behind entirely by moving to cities, indicating that rural depopulation will likely increase urbanization.⁸⁵

D. ASSESSING REFORM

In concluding this review of Russia's agricultural reforms and recent performance, a measure of perspective is in order. How does the Russian experience compare with that of other former communist states? Between 1997 and 2005 the World Bank periodically released reports rating the effectiveness of agricultural reforms in the transitional economies of Europe and Central Asia.⁸⁶ In their analysis, Russia has not realized the same degree of progress as some of its Western neighbors, particularly those who have pursued membership in the European Union. It has however been more

⁸⁴ Grigory Ioffe, Tatyana Nefedova and Ilya Zaslavsky, "From Spatial Continuity to Fragmentation: The Case of Russian Farming," *Annals of the Association of American Geographers* 94, no. 4 (December, 2004), 922.

⁸⁵ Ioffe, Nefedova and Zaslavsky, *The End of Peasantry? The Disintegration of Rural Russia*, 205.

⁸⁶ Csaba Csaki and John Nash, *The Agrarian Economies of Central and Eastern Europe and the Commonwealth of Independent States: Situations and Perspectives, 1997* (Washington, DC: The World Bank, [1998]). Interim updates were released each year between 2001 and 2006.

successful than Belarus and some of the Central Asian Republics, which have made only limited progress in correcting the distortions of the communist era. The World Bank measures take into account roughly the same factors as the Liefert and Swinnen framework utilized here, ranking progress in each area on a ten point scale with one indicating a planned economy and ten signifying completed market reforms. Overall Russia is characterized as a moderate reformer, with its aggregate score improving slightly from 5.8 in 2000 to 6.6 in 2005.⁸⁷ However, in the areas of market liberalization, farm restructuring and the creation of supporting market infrastructure its performance was static during the years in question. Only the reform of upstream and downstream operations was judged to have progressed during the period, moving from 7 to 9.

The 2006 report attributes the stagnation to “reform fatigue,” as lobbying by vested interests, concerns over food security, and the desire to maintain social safety nets have dampened enthusiasm for further changes.⁸⁸ For better or worse, it appears that agricultural reform in Russia is largely complete insofar as the policies currently in place are not likely to be radically altered in the short- to medium-term. This is not to say that conditions will remain static, merely that change is likely to be evolutionary rather than revolutionary. Previous reform efforts will continue to mature. New issues will arise. And broader trends in Russian politics and economics intersect with the agricultural sector. The nature of these dynamics is to be explored under the three scenarios to be presented.

E. TODAY’S TRENDS

Before proceeding to the individual scenarios for Russian agriculture, let us summarize some of the prominent factors and current trends that inform their development. These factors include the role of government, the rise of new operators, and the impact of rural social issues. In each area, there are both causes for optimism as well as concern. Overall, the consensus view is that Russian agriculture is on a growth

⁸⁷ Csaki and Nash, *The Agrarian Economies of Central and Eastern Europe and the Commonwealth of Independent States: Situations and Perspectives*, 1997.

⁸⁸ Ibid.

trajectory. Crop yields have been trending upward for nearly a decade, most farms are profitable, and enthusiasm remains high among both domestic and foreign investors. As opposed to the 1990s, the question among policymakers and industry actors now is not “what further reforms are needed to get things moving in the right direction,” but rather “how can the current momentum be sustained?”

The changes in the Russian countryside over the past two decades have been of historic proportions. No longer legally bound to the land, today the rural populace enjoys a degree of autonomy that is historically unprecedented. Yet to this point, most rural communities and individuals have not benefitted economically; living conditions in the village remain oppressive and discouraging. But significant changes may be taking root. Population trends and economic realities suggest that many individual villages will likely decline and eventually disappear. The emergence and rapid expansion of commercial farming is changing the way people work the land and undermining the existing social order. Given the endemic problems of the Russian village, this may actually be a positive development. Simultaneously, the resurgence of Russian Agriculture means that it has the capacity to play a growing role in world markets, especially in grains. Reforms have occurred gradually, but appear to have reached a relatively steady state reflecting the state capitalist philosophies and oligarchic tendencies that characterize the Russian economy

1. The Role of the State

As noted above, the state plays a heavy role in agriculture. This is partly a legacy of the centralized agricultural system Russia inherited from its Soviet predecessor, and partly a reflection of the pragmatic reality that the private sector cannot yet fulfill all the various functions a market-based agricultural system requires. It is worth noting that Russia is by no means unique in this regard: governments everywhere—especially in advanced countries—insert themselves heavily in agricultural affairs in order to achieve various policy objectives. As is usually the case, state involvement in Russia has both positive and negative aspects. To a large degree the resurgence of Russian agriculture since 1998 can be traced to more proactive, even interventionist, government policies. By guaranteeing financing, promoting trade policies favorable to domestic producers, and

standardizing property laws, these policies have stabilized the sector and provided a foundation for growth going forward.

Wegren offers compelling evidence suggesting that some of the biggest beneficiaries have actually been private farmers, who occupy a position between household subsistence farming and the large-scale corporate operators. Farming an average of around fifty hectares, these farms now account for twenty percent of all agricultural land. His data suggest that by most measures these private farmers are significantly better off today than they were a decade ago. He suggests these results demonstrate that illiberal regimes can indeed promote the growth of healthy, private enterprise.⁸⁹ This idea will be explored in greater detail in Chapter IV.

Unquestionably, the character of the Russian state does contribute to persistent problems that continue to plague the entire business sector, including agriculture. There is little discernable movement to clean up opaque governmental practices that create considerable uncertainty for producers, investors, and consumers. In particular, Russia's failure to develop an independent judiciary means that enforcing contracts and defending legal and property rights will remain problematic. Given the government's lack of transparency, the sometimes-capricious nature of its decisionmaking, and the country's tradition of authoritarianism, there is often a higher degree of uncertainty in predicting future policies in Russia than in other transitional and emerging economies. Uncertainty is a notorious enemy of investment and innovation. In spite of continuing assurances, the government's equivocal commitment to free markets has the potential to temper the present enthusiasm of investors and limit future productivity improvements. The grain export ban imposed in 2010 served as a reminder that Russia's market environment is still heavily influenced by state intervention in support of political ends.

2. The Rise of New Operators

Arguably, the single most significant development in Russian agriculture has been the rise of large-scale corporate farming. Some hypothesize that corporate farms

⁸⁹ Stephen K. Wegren, "Private Farming in Russia: An Emerging Success?" *Post-Soviet Affairs* 26, no. 2 (2011).

increasingly will be the model of choice in Russia. The numerous failures of independent collective farms are apparent to all, and individual or family farming shows no signs of taking root at present. Additionally, the administrative costs of farming in Russia favor large-scale production: employing security personnel, complying with government regulations, and overcoming bureaucratic obstacles requires a large cadre of specialists that only larger producers can afford to maintain. Moreover, in the oligarchic Russian system, large enterprises with wealthy and politically connected owners have tended to fare much better than their smaller competitors. This same pattern appears to be emerging in the agricultural sector with the most prominent corporate farm operators displaying the same oligarchic tendencies observed in other industries.

In fact, much of the optimism regarding agricultural production can be traced to the rise of the new operators. Citing this trend a recent U.S. Department of Agriculture analysis concluded that Russia is poised to become the world's largest grain exporter by 2020.⁹⁰ Media accounts on the resurgence of Russian agriculture also tend to be positive, usually highlighting the success of corporate farming in reclaiming fallow fields, employing modern technology, and increasing crop yields.

There are also numerous practical constraints that must be addressed. Most of these have been mentioned previously: high debt loads among farm operators, labor impairments among the rural workforce, substandard infrastructure, and so forth. Recent performance and successes suggest that none of these issues are insurmountable. As the system grows and matures, many may prove to be self-correcting. For example, given future world population projections and the historically high world prices for foodstuffs observed recently, there are powerful economic motivators for Russia to upgrade its rural infrastructure, particularly to support lucrative grain exports. These forces should encourage an overall expansion of both private and public investment.

⁹⁰ Liefert et al., *Former Soviet Union Region to Play Larger Role in Meeting World Wheat Needs*, 14.

3. The Impact of Rural Social Issues

The arrival of new operators in the Russian village is highlighting the social issues handicapping the rural labor force and driving changes in employment patterns. The new operators almost always employ fewer workers than the old collective farm and can freely fire unproductive workers. Aside from engendering resentment in the village, this has also contributed to persistently high unemployment rates in rural areas. One economic analysis concluded that agricultural labor utilization in Russian agriculture is 20% below its optimum level, suggesting that farms should be able to increase production and profits just by hiring more workers.⁹¹ The high unemployment rate suggests that there should be labor available, so why aren't farms employing more people? The answer becomes clear when one visits a rural village. To quote one field researcher, "most of those unemployed are actually unemployable because of binge drinking. Firing them under the old Soviet system of labor management was next to impossible. While it is quite possible now, finding a sober replacement is more problematic than before."⁹²

This leads to a question with far reaching implications: in this new environment, can the current village culture persist with so many of its members unproductive? Given the modernizing forces at work in rural Russia, it is difficult to see how some the characteristics of village life, such as guaranteed subsistence employment and the accompanying tolerance of idleness and apathy, can continue. Such attitudes are arguably the product of an enabling communal social structure, which the rise of agro-industrial enterprises is steadily eroding. Rural workers are increasingly confronted with the reality that they must be productive individually in order to survive. Trends in rural attitudes also suggest that a fundamental shift may be on the horizon. Studies suggest that agricultural workers are increasingly expressing greater willingness to labor for wages rather than in traditional communal farming relationships. Sociologist Ilya Shteinberg suggests that this finding underscores a fundamental change of values in favor of

⁹¹ William Liefert et al., "Agricultural Labor in Russia: Efficiency and Profitability," *Review of Agricultural Economics* 27, no. 3 (September, 2005), 413–414.

⁹² Ioffe, Nefedova and Zaslavsky, *From Spatial Continuity to Fragmentation: The Case of Russian Farming*, 932.

corporate farming over communal farming. He concludes that traditional Russian peasant culture, which is fundamentally rooted in communal agriculture, may wither away in coming years.⁹³

Anecdotal evidence suggests that migrant and seasonal workers may already be displacing some unproductive Russian workers. Machinery operators are in high demand on the farms of Southern Russia, but managers continually struggle to find qualified (sober) employees among the indigenous population. This has led to a situation reported by Tatyana Nefedova:

In recent years a seasonal migration has developed: operators of grain harvesting combines from Turkey bring their machines to Russia after the harvest in their country is over and they work in exchange for 15 to 20 percent of the harvested grain. Their combines are the world's best brands, and the harvesters' labor ethic is exemplary. They work day and night, using Meskhetian Turkish migrants from Central Asia as their interpreters.⁹⁴

Given Russia's declining population, increased immigration is probably inevitable. In light of these pressures it seems likely that peasant culture will be forced to change significantly in coming decades in response to unprecedented changes. Ideally the end result will be a rural population less encumbered by the debilitating social problems that have been so prevalent for generations. In any case, the future development of Russian agriculture will undoubtedly be influenced significantly by the social context in which it takes place.

⁹³ Ilya Shteinberg, "Ostanyotsya Li v Rossii Krestyanin?" *Otyetsyestvennie Zapiski* 15, no. 1 (2004). <http://www.strana-oz.ru/?numid=16&article=747>.

⁹⁴ Ioffe, Nefedova and Zaslavsky, *The End of Peasantry? The Disintegration of Rural Russia*, 103.

III. ECONOMIC AND POLITICAL LIBERALIZATION SCENARIO

Economic and political liberalization is precisely what Western economists have consistently prescribed for Russia for more than two decades. Yet, when some of their proposed remedies were adopted in the 1990s, overall performance was decidedly uneven. The 2000s witnessed a broad trend toward greater centralization of political control and increased state intervention in economic affairs. This was also a period of markedly improved economic performance, which political leaders were quick to associate with their policies. Yet today, there is also a growing sense that the consolidation of political and economic power has had some notable deleterious effects, including cronyism, corruption, and the stifling of public political debate. To date these concerns have not coalesced into a coherent political movement demanding broad based changes to the status quo. However, should such a movement emerge it would likely open the possibility that Russia could once again take up the banner of liberalizing reform. In order to lay the foundations for examining the potential impact of economic and political liberalization on agriculture, this chapter will first explore the narrative that has emerged with respect to liberal reform during the post-Soviet period. This will provide a foundational background from which to consider how a renewed commitment to liberalizing economic and political reforms would impact agricultural production and the rural Russian populace.

A. THE HISTORICAL NARRATIVE OF LIBERAL REFORM

The shock therapy policies of the early Yeltsin era were designed to quickly transform the command economy. An ardent faith in the ability of markets to correct the country's woes was common among reformers of the era.⁹⁵ Unfortunately, it eventually became clear that the nascent markets of the early 1990s lacked the institutional supports needed to function properly. Although a few talented or fortunate individuals amassed

⁹⁵ David Hoffman, *The Oligarchs: Wealth and Power in the New Russia* (New York: PublicAffairs, 2002), 98–99.

significant wealth during this time, the economy as a whole contracted precipitously, with a corresponding decline in economic well being for most Russians. This culminated in the ruble crash of 1998, which wiped out the savings of many individuals for the second time within a decade. In the eyes of many Russians, the experience served to discredit economic reformers and their ideals.

In the wake of the Soviet collapse, most Russians had ardently proclaimed a desire for “democracy.” But institutionally, liberalism never made significant or lasting inroads within the political system. President Yeltsin’s high-handed dealings with parliament in the early 1990s gave birth to a strong presidential system with relatively few checks on the power of the executive. Openness and transparency never came close to Western democratic standards. With the failure of the government’s liberal economic policies, political liberalism was also discredited, even though it had never really been much more than a superficial feature of the Russian system under Yeltsin.

By the time Vladimir Putin assumed the presidency in 2000, Western style political and economic liberalism held little appeal to many Russians; in their view that path had been tried and found wanting.⁹⁶ Putin gradually, but consistently, began to reassert government influence over “critical” segments of the economy. Improved administrative capacity to collect taxes and rising world energy prices contributed to dramatically improved government finances. As the economy began to grow and the economic fortunes of individuals began to improve, state intervention in economic affairs gained greater legitimacy. Economic strength also gave impetus to a new Russian assertiveness in foreign affairs. Putin’s own popularity soared as he was credited with leading the nation’s resurgence.

If the Yeltsin era created disenchantment with liberal political ideals, the Putin era witnessed their implicit repudiation. In an attempt to address the governance issues that plagued his predecessors, Putin undertook measures designed to increase the authority and power of the central government. These included the abolishment of elections for

⁹⁶ Anne Clunan, *The Social Construction of Russia's Resurgence* (Baltimore: The Johns Hopkins University Press, 2009), 106–108.

regional governorships in favor of direct presidential appointments and the assertion of government control over several broadcast media outlets. The prosecution and imprisonment of Yukos chairman Mikhail Khodorkovsky, was interpreted as a warning to oligarchs that the new political leadership expected them to cooperate or face severe consequences. Influential positions were increasingly filled by individuals who, like Putin himself, had links to the state security apparatus. These *siloviki* generally cast a jaundiced eye toward popular political participation, while embracing an economic program that has been referred to as “market authoritarianism.”⁹⁷ Cronyism, corruption, and constraints on political expression are unsavory, yet salient features of the regime that emerged from these changes.

Much of the economic revival of the past decade can be traced to favorable market conditions for raw materials, most prominently oil and natural gas. The 2008 financial crisis has, in some respects, served as a warning regarding the dangers of heavy reliance on resource exports.⁹⁸ As foreign demand for these items declined, GDP and government revenues both fell sharply, evoking memories of earlier travails. Three years later growth has resumed as oil prices have rebounded. Nevertheless, calls for diversifying the economy have increased. Business leaders consistently lobby for an improved investment environment to foster non-energy growth. Government leaders have expressed rhetorical support and even championed some initiatives to this end. But many question the sincerity of their commitment. Recovering world oil prices have alleviated the immediate need to reduce dependence on energy exports, and skeptics fear that it will be too easy for leaders to simply do nothing so long as the revenues continue to flow.

On the political front, there appears to be growing dissatisfaction with the ineffectiveness and corruption of the ruling regime. While still sporting approval ratings that would be the envy of almost any Western politician, in the lead up to the 2012

⁹⁷ Lilya Shevtsova, *Putin's Russia*, trans. Antonina W. Bouis, Revised and Expanded ed. (Washington, D.C.: Carnegie Endowment for International Peace, 2005), 325.

⁹⁸ Sergei Aleksashenko, "Russia: Stable but Critical," Carnegie Endowment for International Peace, <http://carnegieendowment.org/2011/07/21/russia%2Dstable%2Dbut%2Dcritical/419w> (accessed August 2, 2011).

presidential election both Putin and Medvedev have seen their popularity decline from previous highs.⁹⁹ Popular disgust with reports of blatant corruption and misappropriation of government resources has given rise to public calls for greater transparency and accountability. Medvedev in particular has expressed a willingness to address these issues. Under his direction, new policies have been implemented requiring government officials to provide more detailed financial disclosures and preventing them from serving on the boards of state owned companies. Other initiatives include significant pay increases for police officers (intended to discourage bribe taking) and a purge of many higher-ranking officials within the notoriously corrupt interior ministry. Again, skeptics express doubts about the real significance of these actions. Some question the whether Medvedev is sincere in his efforts. Others, willing to accept his commitment as genuine, question whether or not he can succeed without a greater level of institution commitment to transparency.

Nevertheless, the fact that this debate is occurring at all suggests that scenarios under which Russia does embrace genuine political and economic reform over the next decade have a reasonable basis for consideration. Developments leading up to the parliamentary elections scheduled for December 2011 and the presidential election to follow in March have made clear that the more conservative Putin remains the senior partner in the ruling tandem. While it is difficult to predict exactly how these elections will ultimately influence the political landscape, liberalizing measures are a part of the debate. This underscores the fact that political and economic liberalization is not a dead issue. Undoubtedly, many entrenched interests, including the *siloviki*, would strongly oppose such measures.

B. AGRICULTURAL IMPACT OF LIBERAL REFORMS

Effective political and economic liberalization could be expected to increase overall agricultural production, but would have side effects harmful to some actors.

⁹⁹ Maria Lipman, "In Russia, Growing Rumblings of Discontent," Carnegie Endowment for International Peace, <http://carnegieendowment.org/2011/04/08/in%2Drussia%2Dgrowing%2Drumblings%2Dof%2Ddiscontent/2y7> (accessed August 2, 2011).

Successful reforms would help create a stable business and investment environment conducive to sustainable long-term growth. Improved rule of law would reduce uncertainty, encouraging capital investment in rural infrastructure, land improvement, and farm implements. Presumably, Russia would grow closer to the West and become more integrated with European and global agricultural markets. This would enhance Russia's position with respect to crops where it enjoys a comparative advantage, such as grains. However, closer integration would also bring greater competition, potentially harming producers of certain types of goods. More broadly, this integration would likely facilitate increased labor mobility. Larger numbers of non-Russian workers are likely to enter the rural workforce, significantly changing the character of the Russian village.¹⁰⁰

1. Agricultural Production

In one form or another, the poor quality of the agribusiness environment has underlain the complaints of farmers, food processors, and rural officials throughout the post-Soviet era. In the 1990s, an exceedingly chaotic environment decimated farms when state withdrawal virtually eliminated the sole source of working and investment capital. As illustrated in Chapter II, Russia has recently made significant strides in creating new avenues for investment and credit to flow to producers. However, the government's arbitrary policies; confusing, inconsistent application of laws and regulations; and weak administrative capacity to handle private property matters all foster uncertainties that constrain both investment and productivity. The objective conditions needed to improve the business environment are fairly clear: a firm and clear commitment to rule of law, a reliable system for enforcing contract law, and an institutional commitment to advance private property rights.

Liberalizing reforms would address each of these problem areas. The creation of a credible civil judicial system to mediate disputes would be a prominent reform goal. Such a system would give farmers, investors, and workers an avenue to challenge

¹⁰⁰ No attempt is made here to directly quantify the magnitude of the changes contemplated under any of the scenarios presented. No formal statistical or quantitative modeling is employed. The intent is to identify the salient factors likely to have an impact under each scenario and provide a reasoned argument as to what effects might be expected to follow.

arbitrary policies or defend against violations of property rights. Improved rule of law flowing from this system would create an atmosphere of greater predictability. While Russia has adopted private land ownership in principle, as a practical matter it is still very difficult to transfer ownership of property.¹⁰¹ With its fundamental faith in private property rights, liberalism would encourage formation of the institutions needed to build a healthy private property market. A genuine, active property market would, in turn, enhance the ability of farmers to use land as collateral in order to improve or expand their operations. Indeed, the two biggest benefits springing from such reforms would be an increased incentive for owners to invest in their property and a reduction in the cost of capital investment (due to the reduced perception of risk.) These two factors would encourage farmers to employ newer technologies and improved farming methods that promise higher yields. Total land under cultivation would also be expected to increase, although it is unlikely to rebound to the economically irrational levels of the late Soviet era.

Not every agricultural enterprise would benefit from the changes set in motion by reform. Liberalization would naturally inform Russia's long debated accession to the WTO. While WTO membership may occur under other scenarios as well, liberal political and economic reforms would make accession a virtual certainty.¹⁰² As a condition of membership, Russia will almost certainly be required to reduce the level of state support to farming activities. This prospect has reportedly led the agricultural ministry to strongly oppose WTO membership during intergovernmental debates. The ministry's position is in line with the consensus view of within the agricultural sector that reduced subsidies would be detrimental. Influential WTO members, including the United States, Australia, and the European Union, have long complained about Russia's import quotas on meat products. Inasmuch as they limit exposure to foreign competition, these

¹⁰¹ Gregory Kisunko and Jacqueline Coolidge, "Land and Real Estate Transactions for Businesses in Russia," *Beyond Transition* 18, no. 1 (January - March, 2007), 21.

¹⁰² Even under the current, somewhat illiberal regime there is a strong push for WTO membership by those who believe that freer trade would benefit the Russian economy. Agricultural interests have been among the most vocal opponents of WTO accession. RT.com, *Looming WTO Accession Comes with Two Sides*.

quotas are very favorable to Russian producers. It is reasonable to assume that as a condition of its accession, Russia would have to eliminate them. Increased competition from imports is certain to have an adverse effect on domestic producers. For geographic reasons, meat production in Russia tends carry higher production costs even under the best of circumstances.¹⁰³ Therefore, WTO accession can be expected to reduce overall meat production. Some analysts suggest that such a development would harm small producers the most, with larger producers better able to cope in the new competitive environment.¹⁰⁴ In any case, the government's stated goal of 85% sufficiency in meat production would become unrealistic. Market forces would compel the country to become more reliant on imports to satisfy consumer demand.

Conversely, Russia stands to benefit in areas where it enjoys competitive advantages. Foremost among these is grain. The country's grain export potential has been widely recognized in recent years. Yet, it has also gained a reputation as an unreliable supplier causing Russian grain to trade at a price discount on international markets relative to exports from other regions.¹⁰⁵ Political and economic liberalization would improve transparency and reduce the likelihood that Russia would adopt strong anti-market policies. This should help Russia establish itself as a more responsible trading partner, reducing the need cut prices in order to attract buyers. The improved investment and business environment would also help Russia build the storage, transport, and export infrastructure required to meet its grain producing potential.

Russia's emergence as a significant and reliable grain exporter would have a notable impact far beyond its own borders. According to a recent study published by Dutch agricultural lender Rabobank, by 2050 worldwide production of cereal crops will need to increase by 110% in order to accommodate population growth and changes in

¹⁰³ Ioffe, Nefedova and Zaslavsky, *The End of Peasantry? The Disintegration of Rural Russia*, 70–71.

¹⁰⁴ Isabel Gorst, "Russia: Feed Costs Drive Livestock Cull," FT.com, <http://blogs.ft.com/beyond-brics/2010/11/22/russia-rising-feed-costs-drive-farmers-to-cull-livestock/#axzz1UpyUYuEm> (accessed August 12, 2011).

¹⁰⁵ Tai Adelaja, "A Grain of Discomfort: Russia's Bumper Wheat Harvest Gives Little Cause for Celebration," Russia Profile.org, <http://russiaprofile.org/business/42577.html> (accessed August 11, 2011).

dietary patterns.¹⁰⁶ In casting about for sources to support this enormous growth, Russia emerges as a leading candidate. Possessing vast amounts of available farmland and adequate water supplies, Russia is viewed as having vast untapped growth potential. Liberalization would create the best conditions for this potential to be fully realized.

In this new environment, which producers are most likely to benefit? Based on current trends, it would appear that larger corporate producers would be positioned to gain the most from liberalization. Indeed, liberalization would likely serve to reinforce transformative processes already underway, converting the remnants of former collective farms into modern agro-industrial enterprises. These farms would be the most attractive targets for private investment (especially foreign investment,) due to their professional management cadres, greater willingness to employ advanced farming methods, and favorable access to capital. Other large producers would likewise be driven to improve their own efficiency in order to survive in a more competitive market with fewer government supports. The decline of the legacy collective farm as an agricultural producer, already well under way, would be accelerated.

Small independent farmers, who were championed by early agrarian reformers, have recently begun to demonstrate notable strength as well. These operators, who generally farm less than 200 hectares, have seen impressive growth in terms of overall production, household income, and household wealth over the past decade. Indeed, Wegren argues that they have been the biggest beneficiaries from what he terms “the Keynesian strategy of targeted intervention” employed by the government during the Putin-Medvedev era.¹⁰⁷ Because liberalization and WTO membership is likely to curtail the overall scope of this intervention, these independent private farmers will certainly feel some impact. But these smaller producers would also be among the biggest beneficiaries of market transparency, improved access to credit, and the institutionalization of private property rights. Although some farmers would undoubtedly suffer due to increased

¹⁰⁶ August Sjaauw-Koen-Fa, *Sustainability and Security of the Global Food Supply Chain* (Utrecht: Rabobank Group,[2010]). This figure does not count the potential for added demand caused by the diversion of grain for the production of biofuels.

¹⁰⁷ Wegren, *Private Farming in Russia: An Emerging Success?*, 214.

competition from food imports, overall, liberalization would be a positive development for independent private farmers.

2. Rural Social Impacts

Despite their monumental significance for the agricultural sector, all of the aforementioned changes would be essentially evolutionary in nature. Liberal reform is, after all, not altogether new: it was initially introduced more than twenty years ago. The most revolutionary impacts of political and economic liberalization would be felt by the traditional backbone of agrarian Russia—the peasantry. Political and economic liberalization would reduce Russian insularity as the country draws closer to Western European ideals. Russia would become a full participant in globalization. A prominent feature of globalization is labor mobility. One needs only read one of the numerous accounts of Polish plumbers now working in Great Britain or Mexican construction workers building grain silos in Iowa to recognize that labor markets are increasingly integrated. Liberalization would draw Russia into this global labor market, with potentially tectonic effects on rural society.

One of the foremost complaints of farm managers today is the low quality of the agricultural labor force due to alcohol dependency and poor work ethic. So far migrant labor has not been widely employed in Russia. However, this would quickly change as the country became more closely with integrated with neighbors in both Europe and Asia. Restrictive controls over cross-border travel would almost certainly be relaxed. Because its economy offers high wages and good living standards relative to much of the world, whether legally employable or not, agricultural workers from developing countries, including those on its periphery, would likely see Russia as an attractive place to take their skills. Several of Russia's neighbors have huge unemployed youth populations at a time when Russia is in demographic decline. Given these dynamics it seems inevitable that foreign labor would flow into the Russian countryside.

Where will this leave rural Russians? Already today the countryside is home to a sizable underproductive class of people with bleak economic prospects. This group would be expected to grow considerably if rural laborers were forced to compete with

outsiders. Given the insular character of the Russian countryside, the new arrivals are almost sure to be seen as invaders taking Russian jobs. Resentment would lead to social unrest and calls for the government to protect the interests of its citizens. The liberalizing reforms that enabled the influx of foreigners are likely to be maligned by those displaced. Developed nations have consistently responded to such challenges by creating more robust social safety nets. A westward-oriented government would likely respond similarly, leaving many rural Russians even more reliant on the state to provide for their well being. However, the import of such an institutional response could be outweighed by the collective reaction of individuals. Since at least the 1920s, rural Russians have consistently sought opportunities to flee to urban areas in order to escape difficult circumstances in their villages. Increased labor competition would only increase motivation to emigrate. The resulting exodus would accelerate the disintegration of traditional economic and social linkages in the village. The “end of peasantry” posited by Nefedova, Shteinberg, and others would come about even more rapidly as the role of outsiders becomes more pronounced.

Liberalizing political and economic reforms hold tremendous potential to increase the pace of modernization in rural Russia. An improved agribusiness environment would lead to a rise in overall agricultural productivity. Reforms would almost certainly lead to greater integration with the globalized economy, subjecting the country to the same kinds of economic trends observed elsewhere. By facilitating cross-border labor mobility, liberalizing reforms would introduce more foreigners into the Russian village, speeding up transformative processes already underway there. Labor competition would force native Russians to either improve their competitive position or face marginalization. This competition may encourage a reassessment of rural social problems and a renewed effort on the part of government and society to address them. In order to avoid broad social unrest, some type of policy response would likely be developed to assist those who are left behind. The one certainty is that the traditional Russian peasantry would be radically and irreversibly transformed by the profound social changes unleashed by this type of reform.

IV. BUSINESS AS USUAL SCENARIO

Corresponding with Dator's stability image, this scenario assumes that significant changes to the Russian political and economic landscape will not occur over the coming decade. The political culture, patterns of governance, and economic norms that developed during the Putin presidency of the 2000s, while not entirely unchallenged, will nevertheless prove stable. Given the near certainty of Putin's reelection as President in 2012, and the likelihood that he will remain the preeminent Russian political figure for the foreseeable future, a status quo scenario is assessed to be the most probable of those considered. This chapter will first explore the nature and internal logic of the current regime's governing philosophy and dynamics in order to better understand how they affect the rural economy and agricultural policy. This will facilitate consideration of two major questions: Assuming there is not significant change to the current regime's approach how will Russian agriculture evolve in coming years? How will that evolution impact Russians living in rural areas, and what does it mean for rural society at large?

A. THE CHARACTER AND NATURE OF CONTEMPORARY GOVERNANCE

It is impossible to properly understand the nature of the current Russian political and economic order without reference to the regimes that preceded it. As discussed in the previous chapter, the impulse toward centralized power that emerged under Vladimir Putin was part of a broad rejection of the politics and failed economic policies of the Yeltsin era. The system that emerged has three salient features that provide valuable insight into how it functions. First, popular political participation is conspicuously absent. Second, low levels of trust characterize both political and economic interactions at all levels. And third, for all its flaws, the current system does effectively control the worst impulses of the small political elite by regulating their competition for power.

The non-participatory nature of Russian politics is rooted in the nation's political culture. A classical definition describes political culture as an amalgamation of societal attitudes toward the political system, including its institutions, and the perceived role of

the individual within that system.¹⁰⁸ As Fareed Zakaria has noted, political culture can be notoriously difficult to analyze due to its complexity: virtually any phenomenon to be found if one looks hard enough.¹⁰⁹ Nevertheless, it is possible to discern certain patterns of political behavior in Russian society and to explain the influence these patterns have. Historically speaking, Russia has little tradition of civic involvement in political affairs and decisionmaking. The Soviet regime, like its tsarist predecessor, was an autocracy ruled by a small elite. Decisionmaking processes were opaque and the resulting policy was a confused combination of edict and bureaucratic machination. As in earlier eras, the political “rules,” such as they were, were largely unwritten, known by those who needed to know them, and unknown outside those circles.¹¹⁰ To the extent that average individuals were brought into the political process, it was to lend legitimacy to the policies decided upon by the elites; the people had no real voice. After Stalin’s death, the prevailing social compact required citizens to remain apolitical and forego a variety of individual rights. In exchange, the state provided security and a minimal level of material comfort. The gradual dissolution of this compact during the Brezhnev era was a central factor in the collapse of the Soviet Union. Indeed, although there is considerable debate over the extent to which Gorbachev possessed an overarching political vision, his Glasnost and Perestroika policies can be properly viewed as attempts to redefine the relationship between the party-state and its citizens.

The last decade has seen a partial return to practices of the past, which, however flawed, are popularly perceived to be better than the disorder of the 1990s.¹¹¹ The state is once again in the hands of a small group of autocratically minded elites disinclined toward genuine popular political participation. Individuals enjoy considerable personal

¹⁰⁸ Gabriel A. Almond and Sidney Verba, *The Civic Culture: Political Attitudes and Democracy in Five Nations* (Princeton, NJ: Princeton University Press, 1963), 13.

¹⁰⁹ Fareed Zakaria, "A Brief History of Human Liberty," in *Essential Readings in Comparative Politics*, eds. Patrick H. O’Neil and Ronald Rogowski, Third ed. (New York: W. W. Norton & Company, 2010), 148.

¹¹⁰ Edward L. Keenan, "Muscovite Political Folkways," *Russian Review* 45, no. 2 (1986), 148.

¹¹¹ Pierre Hassner, "Russia's Transition to Autocracy," *Journal of Democracy* 19, no. 2 (Apr, 2008), 7.

liberty to pursue their own interests, so long as those interests do not run counter to those of the regime. The resultant social compact allows, and even encourages, individuals to seek rising living standards, improved education, and social mobility so long as they remain apolitical. The legitimacy of the state (and therefore the government and the regime as well) is based on its ability to maintain security and stability. The message, as Lilya Shevtsova describes it, is “do as you please, just don’t try to seize power.”¹¹² For the most part, Russian society has acquiesced. Relatively few are inclined toward political activism, political parties remain the tools of leading elites rather than participatory institutions, and there is only muted outcry against the proscription of political and civil liberties. This was most recently underscored by the resigned public response to Putin’s decision to reassume the presidency.

The second salient feature informing the character of Russia’s ruling regime is a low level of social trust, both between the government and the people, and on an interpersonal level throughout society. Ronald Inglehart has presented evidence showing that low-trust societies tend to demonstrate a marked disposition toward authoritarianism rather than liberal democracy. Such societies also tend to have weak rule of law.¹¹³ This helps explain why Russia has historically embraced a fundamentally different social conception of the judicial system. In a liberal democracy the legal system generally serves to protect the rights of the individual from infringement by both the government and other individuals. In contrast, the Russian legal system has traditionally served not as a defender of the weak, but as a tool to protect the interests of the state and the regime. Protections for individuals have been minimal while the law itself retained a certain arbitrary quality. One of the pernicious effects of this dynamic is a delegitimization of the law in the eyes of the populace. Because the law does not serve the interests of the public, individuals feel less obligated to comply with its demands, particularly when there is a low likelihood of punishment for non-compliance. This creates a “regime of soft

¹¹² Lilya Shevtsova, "What's the Matter with Russia?" *Journal of Democracy* 21, no. 1 (Jan, 2010), 158.

¹¹³ Ronald Inglehart, "Culture and Democracy," in *Culture Matters: How Values Shape Human Progress*, eds. Lawrence E. Harrison and Samuel P. Huntington (New York: Basic Books, 2000), 93.

legal constraints” wherein “rules are broken in a standardized way.”¹¹⁴ More broadly, low levels of social trust encourage the atomization of Russian society, inhibiting its ability to pull together in dynamic support of national projects or ideals.¹¹⁵

How can order be maintained in such an environment? Putin’s solution has been to build and maintain credible, centralized political power with the capacity to impose a degree of order amidst the chaos. Russia’s strong presidential system facilitates this. Power is concentrated in the person of the president, who is able to manage competing clans who otherwise would co-opt the government and the bureaucracy to an unmanageable degree. In the view of Putin and his associates, the fatal flaw of Yeltsin’s government was that it was too weak to prevent powerful interests from co-opting the machinery of the state. Under the current regime, the president has the ability to curb the worse abuses and arbitrarily apply his power to enforce certain norms of behavior among the political elite. Individuals frequently ignore the law when they feel they can safely do so, but there is always a risk that officials in positions of authority may intervene for their own reasons, including personal profit. The system tolerates corruption so long as “rules are broken in a standardized way” according to an “unwritten” understanding. Such a closed system is loath to acknowledge intangible external constraints, including such liberal principles as rule of law or personal property rights, preferring to either deny their applicability to current circumstances or to simply ignore them outright.

While the outside observer may judge the tendencies and characteristics described in the preceding paragraphs to be backward or illogical, the simple fact is in Russia’s contemporary context they often work well enough. For many Russians, the proof is in the results. And the results show that the return to these traditional patterns of Russian governance, and the implicit rejection of Western liberalism that accompanied it, has coincided with a broad recovery from the post-Soviet malaise. Moreover, while businessmen and investors may complain about uncertainty, conditions today are far

¹¹⁴ Kirill Rogov, "Switch on, Switch Off: How Law Sustains the Russian System," Open Democracy, <http://www.opendemocracy.net/print/57282> (accessed March 16, 2011).

¹¹⁵ Dmitri V. Trenin, "What Russian Empire?" New York Times, <http://www.nytimes.com/2011/08/24/opinion/24iht-edtrenin24.html> (accessed August 23, 2011).

more predictable in almost every respect than they were in the mid-1990s. Are there flaws? Absolutely; the preceding chapters have enumerated many of them in considerable detail. Nevertheless, a measure of perspective is in order. Objectively speaking, Putin's approach has created stability and predictability for the vast majority of Russians. This is especially true in the agricultural sector, which has seen virtually all of its post-Soviet gains come after his policies were implemented.

A persuasive argument can be advanced that, despite its numerous flaws, the governing system Russia has today serves its people better than any they have enjoyed during the last century, or perhaps ever before in their history. For this reason, it is important not to underestimate the staying power of the status quo. Not only do entrenched interests stand behind it, it continues to enjoy a notable measure of popular support as well. While criticism is widespread and credible, the Putin philosophy is likely to remain ascendant because of the relative stability and predictability it provides for a nation with a living memory of what chaos and disorder mean.

B. FUTURE AGRICULTURAL DEVELOPMENT UNDER THE STATUS QUO

The agricultural status quo is based on a strong government commitment to support private agricultural enterprise. The state has at least an indirect role in nearly every facet of agricultural production. A status quo scenario assumes that this will remain the government's preferred approach; therefore current agricultural trends will continue. Overall production will grow modestly as new techniques are adopted, farms gradually become more efficient, and infrastructure is incrementally improved. Due to business uncertainties and the relatively inefficient government bureaucracy, explosive agricultural growth is unlikely to occur. While improving, crop yields will continue to trend below comparable yields in other regions, even when adjusted for climate. Governmental policy will attempt to ameliorate the worst impacts for agricultural producers in down years. However, due to systemic weaknesses, farms will not enjoy the full impact of above-average harvests either.

1. Economic Evolution

Of all the roles the agricultural ministry plays, perhaps none is as vital as its role as the primary provider of capital. Effective interest rates on long-term agricultural loans are reportedly about six percent, with rates for working capital around four percent.¹¹⁶ Given the level of perceived risk, private lenders are unwilling to extend loans at those rates. If the status quo prevails going forward, this dynamic is unlikely to change and farmers will remain heavily reliant on state agricultural banks for financing. The state will be under strong political pressure to continue providing credit subsidies in order to avoid a production collapse.

Despite enjoying relatively low interest rates, Russian farms still carry heavy debt loads. This hampers their ability to manage the impact of a poor harvest. As the primary creditor, and in its self-appointed role as guarantor of agricultural prosperity, the government has in the past elected to step up its support during difficult years. The poor harvest of 2010 led to a raft of emergency measures designed to help producers. These included additional interest subsidies, direct monetary transfers to replenish working capital, and preferential tariff rates for rail transport.¹¹⁷ So long as the status quo prevails, such responses will be the norm in lean years.

Conversely, in good years, farmers are unlikely to enjoy the benefits of above average harvests. In fact a bumper crop can actually be detrimental to farmers because of the tendency for excess supply to suppress prices. One attractive solution to this dilemma is to sell the excess on international markets, where, presumably, Russian excess could make up for below average production in other regions. Unfortunately, the infrastructure woes detailed in chapter two make this approach impractical. Insufficient storage, decaying rail networks, and inadequate port capacity all inhibit Russia's ability to effectively get an above average harvest from the field to market. As a result, prices in

¹¹⁶ Irina Chechurina, "India Abroad: Farming Profits on Russian Land," *Rossiyskaya Gazeta*, http://indrus.in/articles/2011/08/22/india_abroad_farming_profits_on_russian_land_12896.html (accessed August 23, 2011).

¹¹⁷ Vassilieva, *Agricultural Development Program in 2010 and Priorities for 2011*, GAIN Report no. 1106.

domestic markets plummet in such years leaving farmers to sell their crops at small margins. Once again, this obliges the government to step in as a buyer of last resort in order to set a price floor. Clearly, better infrastructure would help alleviate these issues and make it easier for farms to capitalize on good harvests. But who will build it? Once again, due to the perceived risk private enterprise has been reticent to make the needed investments, leaving the government as the primary provider. Political leaders have announced many building programs, and undoubtedly will continue to introduce more. Indeed, one of the avowed purposes of the United Grain Company is to improve agricultural infrastructure.¹¹⁸ However, given the scope of the problem it is unlikely that the government alone will be able to solve it. Private investment will be needed. This leads to the inevitable conclusion that so long as the agricultural investment environment continues to be viewed as risky, the infrastructure challenges will remain. Consequently, under the status quo scenario, farmers will continue to suffer from poor market conditions in years with bumper harvests. Price supports will be essential in such years in order to guarantee a minimal profit.

The current regime has consistently demonstrated a commitment to build and maintain the country's agricultural base. As Wegren argues, even illiberal regimes can foster economic development based on capitalist principles. The record of the past decade indicates that Russia has had some notable successes in this regard. Assuming the status quo continues, the government can be expected to continue to pursue policies similar to what has worked in the past. However, its state-sponsored approach has notable weaknesses. These include a poor investment climate that hampers its ability to attract sorely needed private capital to compliment state initiatives, an outsized dependence on government intervention in both good times and bad, and an unwieldy, inefficient bureaucracy strained to effectively carry out the myriad functions required of it.

¹¹⁸ Vassilieva, *Russia's Federal United Grain Company Created*, GAIN Report no. RS9022.

2. Social Evolution

In the context of the interventionist approach outlined above, rural Russians will continue to see notable changes over the next decade, reinforcing the existing trends identified in chapter two. The current regime sees Russia's agricultural rebound as an important proof of its legitimacy, and will be keen to maintain it. Moreover, the conservative nature of many rural Russians makes it a natural constituency for leaders like Putin. Election season often witnesses populist pandering to rural interests. This is certainly a trend that will be in evidence in the lead up to the 2012 presidential election. This empowers farm and rural interests. Indeed, one notable political development over the past decade has been the increasing organizational strength of farm lobbies, such as the Russian Grain Union, the Russian Meatpackers Union, and the private farmer association known by its acronym AKKOR, all of have also become notable advocates within their respective spheres. Largely absent from national political debates during the 1990s, these organizations are making rural interests politically prominent once again and winning the support of leading politicians. Under the status quo scenario, these groups will continue to influence policy and ensure that, unlike during the Yeltsin years, the concerns of agriculture receive due consideration in Moscow.

However, rural Russian communities and individuals will continue to experience vast social challenges. The decline of the peasantry discussed in chapter two will continue, as private farms increasingly become the model of choice across the countryside. While the influx of outsiders into the village will undoubtedly increase, it is likely the regime will attempt to limit the number of non-Russians who would be accused of taking Russian jobs. However, their ability to actually execute an effective program to curtail the potential use of undocumented workers is questionable. The mixed experience of even well-developed countries in managing this issue suggests it will not be easy for the government to head off labor competition. It is easy to envision scenarios in which xenophobic tendencies lead to discrimination or violence against the new arrivals and add yet another social problem to the already troubled Russian village. While it is impractical to speculate how these developments will play out in detail, under the status quo one near certainty is that the government will attempt to insulate ethnic Russians to some extent

from the arrival of outsiders, either through pro-Russian employment policies, restrictive immigration laws, or by providing more robust social safety nets.

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V. OIL CURSE SCENARIO

This final scenario assumes that Russia will become a rentier state whose budget relies very heavily on the energy sector. This creates political and economic distortions with decidedly negative consequences for both democratic governance and economic development beyond the energy sector. More broadly, the oil curse inhibits Russia's ability to capitalize on globalization trends, marginalizing it as a global player outside of the realm of energy and energy politics. The country increasingly turns inward, out of step with its European neighbors. Meanwhile, domestic economic problems arising from the unbalanced economy eventually lead to popular unrest as Russians begin to question the legitimacy of the ruling regime. Many characteristics of the oil curse scenario are compatible with the traditional patterns of authoritarian rule in Russia discussed in the previous chapter.

Should this scenario come to fruition, efforts to address existing weaknesses and increase investment in the agricultural sector would be frustrated. Additionally, the strong ruble resulting from the influx of petrodollars would make Russian agricultural goods less competitive abroad. The net results would include stagnating or declining agricultural production, depressed rural development, and a continuing population exodus from the countryside.

A. THE RUBLE AS A PETROCURRENCY

One of the most damaging effects arising from overreliance on energy exports is a phenomenon often referred to "Dutch Disease," after the country in which it was first identified. It is a condition characterized by an economy in which one sector, often tied to natural resource extraction, comes to dominate the country's exports with deleterious effects on other export sectors. In a country such as Russia that relies heavily on oil exports to sustain the economy, the danger is that the exchange rate will come be driven by global oil prices, or even speculation regarding future oil prices, rather than by the fundamentals of its non-oil trade balance. This commonly results in an overvalued

exchange rate that harms the competitive position of non-oil exports. In some cases this can trigger deindustrialization or prevent meaningful industrial development beyond the oil sector.¹¹⁹

Some economists suggest that the process described above is already underway in Russia, but the extent to which the country currently suffers or will suffer from Dutch Disease is debatable. Those arguing in favor of a positive diagnosis have suggested that Russia began suffering its effects several years ago as its oil-fired economic recovery began. They cite evidence such as an apparent correlation between the ruble exchange rate and the dollar-denominated price of oil, the increasing share of natural resource exports as a proportion of total exports, and the federal budget's increasing reliance on oil revenues.¹²⁰ Indeed, over the past two decades Russia has suffered considerable deindustrialization, which is perhaps the most prominent marker of Dutch Disease. However, the degree to which this is attributable to the oil curse is unclear. Even before the oil boom of the past decade, deindustrialization was already a recognized phenomenon in post-Soviet Russia as unproductive communist era enterprises were downsized or eliminated.¹²¹ This supports the position of economists who argue that Dutch Disease does not apply in Russia, or that even if the Russian economy does manifest some of the curse's symptoms, it does not necessarily follow that the country suffers from the condition.¹²² There is a considerable body of evidence and scholarly literature demonstrating that large, diversified economies are often able to avoid or mitigate the risks associated with Dutch Disease after a major resource discovery.

¹¹⁹ Jeffrey D. Sachs and Andrew M. Warner, *Natural Resource Abundance and Economic Growth* (Cambridge, MA: National Bureau of Economic Research Working Paper No. 5398,[1995]); W. Max Corden and J. Peter Neary, "Booming Sector and De-Industrialisation in a Small Open Economy," *The Economic Journal* 92, no. 368 (1982), 825–848.

¹²⁰ Roland Gotz, "Wirtschaftsmacht Russland. Das Öl, Der Aufschwung Und Die Stabilität," *Osteuropa* 58, no. 2 (Feb, 2008), 21-32.; Goorha, *The Political Economy of the Resource Curse in Russia*, 601–611.

¹²¹ Ernest Raiklin, "Unemployment Trends in Russia of the 1990s," *International Journal of Social Economics* 26, no. 12 (1999).

¹²² Nienke Oomes and Katerina Kalcheva, *Diagnosing Dutch Disease: Does Russia have the Symptoms?* (Washington, DC: International Monetary Fund, IMF Working Papers: 07/102,[2007]); Daniel Treisman, "Is Russia Cursed by Oil?" *Journal of International Affairs* 63, no. 2 (Spring, 2010), 85–102.

Indeed, although the condition was first identified in the Netherlands in the 1970s after a large natural gas discovery made it a notable energy exporter, that country was able to maintain diversified economic growth in spite of the economic dislocations that the discovery apparently helped cause. Norway today presents a similar case: it retains a vibrant, diversified economy even though oil extraction is a major contributor to GDP.¹²³ At present there is no clear consensus as to whether Russia suffers from Dutch Disease or if it will in the future.

Nevertheless, if one assumes that the oil curse will bring about a troublesome rise in the exchange rate, the negative effects could be considerable for the Russian agricultural sector. As noted in previous chapters, much of its future growth potential is tied to its ability to sell goods competitively on international markets. Dutch Disease could derail these prospects. Russian farmers' expenses, including seed, fuel, fertilizer, equipment, capital improvements, and wages, are mostly denominated in rubles. Yet transactions conducted on international markets are usually denominated in dollars. An overvalued exchange rate would mean that when a farmer sells his goods abroad, the dollars he receives are worth fewer rubles. In effect, the overvalued exchange rate acts as an additional tax, reducing his profit margin and increasing costs relative to farmers in other countries. On a macro level, this will tend to depress exports. Simultaneously, the inability to make money by exporting goods could result in a glut in domestic markets, depressing prices there as well. At that point the government would likely be obliged to set a price floor. Nevertheless, the incentives for farmers to expand production would be limited. Likewise, capital investment would be less likely to flow into the agricultural sector given the challenging market environment.

B. ENERGY DOMINANCE AND RENT-SEEKING

Another troublesome feature of the oil curse is the potential for oil wealth to affect the thinking of both political leaders and businessmen. When a single resource becomes the dominant source of a country's wealth it can obviate the need to invest in the

¹²³ Roed Larsen Erling, "Are Rich Countries Immune to the Resource Curse? Evidence from Norway's Management of its Oil Riches," *Resource Policy* 30, no. 2 (June, 2005), 75–86.

future. Oil may appear to be a limitless source of easy money. As one analysis succinctly explains, "... a country may become accustomed to a lifestyle which is paid for by oil sales rather than productivity increases."¹²⁴ This pernicious tendency could encourage underinvestment in non-oil infrastructure, including agriculture, and result in a failure to develop institutions supportive of a market-driven agricultural sector. Either of these developments would impair Russia's ability to recognize its agricultural potential.

Beyond underinvestment, another facet of the oil wealth conundrum is its potential to encourage poor economic policies. When oil money appears to be flowing readily, political leaders often attempt to use the windfall to avoid painful changes that would actually be beneficial in the long term. For example, money-losing enterprises might be subsidized in order to avoid the dislocations that a closure might cause. While beneficial in the short run, especially for workers who don't have to look for new employment, over time such measures prevent rationalization of economic production and cause the country to fall behind its peers in term of productivity. Thus, oil wealth can indirectly undermine long-term prospects. This situation describes a "rentier" state that is reliant on resource income rather than taxation to sustain itself.¹²⁵ The oil curse idea holds that since rentier states do not rely on their citizens for taxes, they are less inclined toward good governance.¹²⁶ The problems associated with the rentier mentality usually appear most prominently when economic forces disrupt oil income and leaders are forced to recognize that, despite previous appearances, oil is not a limitless cash cow.

It follows that if the oil curse makes Russia a rentier state, the regime should be expected support the agricultural status quo. Subsidies would be offered to producers, government policies would attempt to maintain production, and safety nets would be designed to keep farmers and other agricultural actors somewhat satisfied. Skeptics of the current regime might argue that this is an apt description of agricultural policy during the Putin/Medvedev era and therefore evidence that Russia is already be suffering from

¹²⁴ World Economic Forum, *Russia and the World: Scenarios to 2025*, 30.

¹²⁵ Goorha, *The Political Economy of the Resource Curse in Russia*, 604.

¹²⁶ Daniel Treisman, *Oil and Democracy in Russia* (Cambridge, MA: National Bureau of Economic Research, Inc, NBER Working Papers: 15667,[2010]).

an oil curse. This would be a misinterpretation. Although government policy has included some of these features, far from attempting to maintain a status quo, the regime's policy goals have tended to be transformative in nature. The underlying ambitions of land reform, market interventions, and agricultural supports have been to facilitate and manage change in ways that increase overall productivity. Under the oil curse scenario, this would not be the case. Maintaining order would be the primary policy aim, and therefore potentially disruptive policies and measures (such as land reform) would be studiously avoided.

One of the defining characteristics of a rentier state is a business elite that derives its wealth and power not from the productivity of its business enterprises, but rather from its influence in political circles. The focus of this group is not on operating their enterprises in the most efficient manner, but rather using their wealth and positions to influence the political system in their favor. Sometimes referred to as "crony capitalism," such a dynamic would also be detrimental to agricultural interests. Because the economic importance of oil dwarfs that of agriculture, in such a system there is little chance that agricultural interests would be championed among the few favored elites. Consequently, the agricultural sector would generally suffer the neglect of a regime far more concerned with keeping the oil money flowing. Certainly there would be token gestures of support, but, as noted above, there would be little incentive to undertake painful structural reforms that the sector needs to thrive in the longer term.¹²⁷

C. THE OIL CURSE, AGRICULTURE, AND VILLAGERS

The developments discussed above would have serious implications for the way Russia is viewed both at home and abroad. At a time when globalization is opening up more of the world to outside influences and binding disparate regions more closely to one another socially and economically, Russia would represent a notable exception to trend. As its politics and economy came to be dominated by oil related interests, it would find itself increasingly out of step with its European neighbors. This would likely engender a

¹²⁷ World Economic Forum, *Russia and the World: Scenarios to 2025*, 31.

sense of isolation, causing the country to turn inward. Meanwhile, domestic problems arising from the unbalanced economy, and possibly its failure to generate sufficient employment, would lead to popular dissatisfaction with the ruling regime. In such a context agriculture would be just one element of a broader and potentially troubling national mosaic. Nevertheless, its role and place within that mosaic are worthy of consideration.

Under the oil curse scenario, the vitality that has characterized the agricultural sector over the past decade would likely give way to renewed stagnation as political and economic elites begin to focus almost solely on the oil sector. The growth in agricultural investment experienced in recent years would recede as the uncertain climate reduces future prospects. While a return to the dismal lows of the 1990s is unlikely, overall productivity would languish or decline modestly as farmers are shut out of the export market by the overvalued ruble. Under such conditions the sector would become ever more dependent on the government for access to essential inputs, financing, and subsidies. Governmental measures would be expected to address immediate problems and keep the sector afloat, but would avoid tackling the underlying systemic and institutional causes.

As always, those most directly affected by these developments would be the villagers who rely on agriculture either directly or indirectly for their livelihoods. Because the oil curse would generally inhibit rural growth and development, one could expect the exodus from the countryside to the city to continue and even accelerate. The perceived disparity between rural and urban areas with respect to quality of life would increase. The depopulation of less fertile regions posited by Ioffe et al. would become more pronounced as individuals and family seek better prospects.¹²⁸ As in the past, young people would be the most likely to leave, depriving their villages of their vitality and energy. More broadly, depressed development would likely make it even more difficult for rural Russia to address its longstanding social problems. Alcoholism,

¹²⁸ Ioffe, Nefedova and Zaslavsky, *The End of Peasantry? The Disintegration of Rural Russia*, 154–155.

chronic unemployment, and unsatisfactory access to healthcare and social services, are all conditions that could be expected to persist or perhaps become even more acute.

The impairments of the rural labor force would continue to challenge farm managers desperate for the qualified workers and professionals essential to the operation of a modern agricultural enterprise. If, as anticipated, the oil curse causes Russia to focus inward, it might be expected to assume an anti-immigration stance, particularly if poor economic conditions fuel perceptions that outsiders are taking Russian jobs. In this case it is less likely that the rural labor issue will be solved in ways that introduce large numbers of non-Russians into rural villages.

Assessing the probability of the oil curse scenario depends heavily on whether or not one believes that, despite the significant role of oil within its economy, Russia will successfully avoid Dutch Disease and the governance problems commonly associated with oil wealth. On this account, there is actually considerable cause for optimism. Although politically leaders have understandably paid close attention to oil issues, there is little indication that oil interests have exerted outsize influence on decision making. In fact, the Kremlin has consistently moved to thwart the political ambitions of oil oligarchs and often pursued policies detrimental to oil interests. It also has refrained from exerting direct state control over oil assets and, unlike most petrostates, allows international oil companies to hold ownership stakes in Russian concerns.¹²⁹ In short, governmental behavior to date indicates that, while influential, oil considerations are just one of the factors affecting political and economic decision making. Moreover, when one considers the actual value of Russia's oil exports on a per capita basis, it becomes clear that oil income does not play the outsized role that it does in the states most commonly associated with the resource curse. Simply put, oil exports fall far short of allowing the Russian government to "live off its rents."¹³⁰ In light of these facts the likelihood of this scenario coming to fruition is considered to be low (less than 20%.)

¹²⁹ Treisman, *Oil and Democracy in Russia*, 13.

¹³⁰ Ibid.

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VI. CONCLUSION

Scenario development is a useful tool for envisioning what the future might look like. By closely examining current trends and considering how they may be influenced under different development contexts, it is possible to develop a set of projections that help conceptualize what the future might look like. Scenarios depicting the future course of Russian development tend to focus on images involving transformation toward liberal democracy, continuation of the status quo, and a return to traditional authoritarianism characterized by a government suffering from some form of resource curse.

When utilized to envision how agricultural development might proceed over the coming decade, these scenarios provide valuable insights into future possibilities. If prudently managed, a transition toward a liberal democratic political and economic system offers the greatest potential for Russia to meet its full agricultural potential. However, this scenario also presents some of the greatest challenges because it would require the country to embark on an ambitious program of institution building and to redefine traditional relationships between government and society. The status quo scenario would allow the country to continue the conservative approach to agricultural development that has reinvigorated the sector over the past decade. Yet, the readily apparent limitations of this approach bring into question its ability to sustain robust growth in coming years. If the Russian government falls victim to the oil curse and comes to exhibit even more authoritarian tendencies that isolate it from the rest of the developed world, agricultural development can be expected to stagnate as the rentier state focuses its efforts on maintaining the flow of oil revenue. The neglect suffered by the non-oil sector of the economy would preclude efforts to meaningfully address the problems faced by agriculture.

The past twenty years have been a truly remarkable period for Russian agriculture. In the space of a single generation the rural landscape has been transformed from one dominated by state controlled *kolkhozes* into one where private enterprise is the motivating principle. The journey has not been easy, and the sector as a whole is only

now beginning to fully recover from the wrenching dislocations experienced. Nevertheless, today there is considerable cause for optimism. The problems facing the agricultural economy are far less daunting than in previous years. Even more significantly, the broader economic resurgence has given the country the resources required in order to meaningfully address its problems. As a result, the issues the agricultural sector must contend with over the next ten years are imminently manageable. The critical task will be mustering the needed political will. That may prove to be that greatest challenge of all.

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